

CHARLES H. MONTANGE
ATTORNEY AT LAW
426 NW 162ND STREET
SEATTLE, WASHINGTON 98177

(206) 546-1936
FAX: (206) 546-3739



28 September 2006
by hand

Hon. Vernon Williams
Secretary
Surface Transportation Board
1925 K Street, N.W.
Washington, D.C. 20423-0001

Re: PYCO Industries -- Feeder Line Application
South Plains Switching, Ltd., F.D. 34890
and related proceeding F.D. 34922

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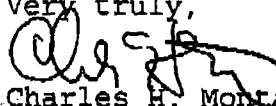
PYCO's revised valuation of SAW, due September 28

Dear Mr. Williams:

On behalf of PYCO Industries, enclosed please find eleven copies of PYCO's revised valuation of SAW, due pursuant to the relevant scheduling orders on September 28, 2006. A certificate of service on counsel for parties is attached.

Thank you for your assistance.

Very truly,


Charles H. Montange
for PYCO Industries, Inc.

Encls.

cc. counsel per certificate of service (w/encl.)
Mr. McLaren (for PYCO)

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BEFORE THE
SURFACE TRANSPORTATION BOARD

PYCO INDUSTRIES, INC. --)
FEEDER LINE DEVELOPMENT --) F.D. 34890
SOUTH PLAINS SWITCHING LTD.) (revision of F.D. 34844)

PYCO INDUSTRIES'
MODIFICATION TO VALUATION
OF ASSETS OF
SOUTH PLAINS SWITCHING, LTD.

PYCO Industries, Inc. (PYCO) sets forth herewith revisions to its valuation of South Plains Switching, Ltd. (SAW) assets pursuant to the discovery responses which SAW provided on September 21, 2006.¹

National transportation policy requires the Board to "foster sound economic conditions in transportation." 49 U.S.C. § 10101(5). An accurate valuation of SAW assets in the context of a feeder line application is essential to achieve that goal. If SAW assets were overvalued, rail shipments would be uneconomically diverted to trucks, or rail dependent businesses would be rendered uncompetitive. In addition, the basic purpose of the feeder line statute (49 U.S.C. § 10907) to foster better conditions on inadequately served feeder lines will have been thwarted.

As we will show in our Rebuttal currently due on or about October 19, 2006, SAW indeed has sought to inflate its valuation vastly in excess of any reasonable GCV or NLV. For

¹ PYCO filed revised valuations on or about August 12, 2006, based on SAW discovery responses related solely to Alternative Two. SAW discovery responses made September 21 were far more extensive than those previously supplied PYCO.

now, however, PYCO will direct its attention to revising its own valuations for SAW based on such information as has come to light with SAW's discovery responses through September 21. In the case of NLV, the primary adjustment is to the amount of rail, ties, and other track material (possibly) owned by SAW. In the case of GCV, SAW has finally provided sufficient information for PYCO's experts to establish a value based on a refined projection of credible future net revenues.

I. Summary

Based on all information developed through discovery processes to date, PYCO's revised estimate for Net Liquidation Value (NLV) for all-SAW is \$2,274,000.

PYCO's revised estimate for Going Concern Value (GCV), taking into account all discovery information received from SAW including that presented in SAW's September 18 filing with this Board, but not taking into account rehabilitation, is \$ 2,300,745. Exhibit B, Table 5. PYCO's experts prepared four possible GCV scenarios, with results ranging from \$1,131,102 to \$3,032,436. Exhibit B, Tables 2-5.

In all events, rehabilitation costs must be taken into account. PYCO's revised rehabilitation estimate for key leads and tracks in the SAW system (10.45 miles) using 90# rail is \$259,000 mile, and for 112#/115# rail is \$420,000 mile. Inclusive of turn-out and crossing replacement and other repairs, estimated total rehabilitation costs range from \$4,072,000 to \$6,605,000. See Exhibit C. This rehabilitation

would not be feasible in one year, but would be spread over several years. The present value of the cost, however, is fairly represented by the range.

If the cost of rehabilitation is deducted from the preliminary GCV noted above, the actual GCV for all-SAW is inevitably negative. Exhibit B, Table 6.

Consonant with the above, the effective valuation of SAW, based on discovery, is the NLV of \$2,274,000 for purposes of 49 U.S.C. § 10907. This NLV is very close to the most likely GCV for SAW, under favorable assumptions to SAW, without taking into account rehabilitation (i.e., \$2,300,745 as shown in Exhibit B, Table 5). If the Board accepts PYCO's valuations, the issue as to rehabilitation may therefore largely be moot.

II. Preliminary Statement

In its original feeder line application served May 5, 2006, PYCO Industries, Inc. (PYCO), included as Exhibit P proposed discovery to incumbent rail provider South Plains Switching, Ltd. (SAW). This Board authorized discovery responses, but due to the course of the proceeding and requests for more time by SAW, the bulk of SAW's response was not delivered to PYCO's counsel until September 21, 2006.² Pursuant to this Board's decision served August 16, as modified by this Board's decision served August 18, PYCO has seven days to

² The discovery response omits certain documents which PYCO believes are available, and also fails to contain a verification as required by the regulations. PYCO will attempt to work those matters out with SAW's counsel before raising issues concerning same with the Board.

provide modifications to its valuations of SAW assets.

Under these same decisions, PYCO understands that other parties may file comments on PYCO's revised valuations on or before October 12, 2006, and that PYCO will then have an opportunity to file a rebuttal on October 19, 2006.

On September 18, 2006, SAW filed a "response" to PYCO's feeder line application. As PYCO understands the procedural schedule adopted by STB, PYCO's rebuttal of that "response," as well as any response SAW makes to the revised valuations set forth herewith, will be due on October 19, 2006.

III. Changes in NLV

At the time PYCO filed its original feeder line application in May, PYCO of necessity based its NLV estimates on the best information then available concerning the assets transferred by BNSF Railway to SAW in 1999, less observed track removal, plus observed new construction. PYCO derived its estimate of assets transferred to SAW from the 1999 STB decision³ authorizing the transfer and from the BNSF/SAW sales contract (Exhibit G to PYCO's original feeder line application) which purports to contain a list of tracks and estimates track feet. The sales contract, like this Board's applicable decision, indicate that SAW received approximately 74,384 feet of rail lines from BNSF.

SAW made claims in its September 18 filing and in its

³ South Plains Switching, Ltd. -- Acquisition Exemption-- Burlington Northern and Santa Fe Railway Co., F.D. 33753 (sub-no. 1), served July 15, 1999.

September 21 discovery responses which are quite different from a plain reading of this Board's supplied significant new data in discovery. In particular, SAW indicates, for the first time, that by reason of the contract and this Board's 1999 decision, it operates on some 198,277 feet of track, and that it owns 133,884 feet of track. See Landreth Verified Statement, Exhibit 2, p. 4, to SAW filing. Landreth attaches a table (Attachment 1, pp. 19-21 to his statement) which purports to summarize all track operated upon by SAW. The table divides that track into the portion he states is owned by SAW and the portion he states is owned by industry.

The key figure for NLV calculations is track owned by SAW. In the brief time available since SAW made available this information to PYCO, PYCO obviously has not been able to verify that Landreth's table accurately states what SAW owns in terms of trackage.⁴ In order to comport with the Board's procedural schedule, PYCO therefore must assume for purposes of this pleading that SAW owns what Landreth for SAW asserts, even

⁴ Verification of the information would require extensive study of a foot high pile of track agreements and deeds supplied by SAW to PYCO for the first time on September 21, plus probably re-entry onto the premises to measure track distances.

PYCO notes that the material furnished by SAW to PYCO on September 21 includes several deeds by SAW to Choo Choo Properties and to certain other entities which appear to convey significant portions of land and appurtenances (including apparently the rail) in the period February to April of 2006. PYCO has not yet had time to determine whether Landreth's tables take these sales into account, nor has PYCO had time to determine whether these sales constitute an illegal abandonment of portions of SAW's lines or at least a breach of SAW's 1999 contract with BNSF. PYCO reserves the right to seek further relief based on study of these various deeds out by SAW.

though that is vastly in excess of what SAW and BNSF represented in their contract and in the 1999 Notice of Exemption.

Before turning to actual net liquidation value of the property that SAW (through Landreth) asserts that it owns, PYCO wishes to make two observations:

(1) Neither SAW nor Landreth presented actual salvage estimates for the rail assets that SAW now claims to own for the all-SAW alternative, nor did either present any appraisal (much less title reports) supporting any land valuation. SAW does attach an estimate prepared by Mr. Landreth for the rail assets encompassed by "Alternative Two." See SAW's Sept. 18 Response, Exhibit 2 at p. 22 ("Attachment 2"). That estimate (\$595,375.31) employs per unit estimates of salvage value very close to those originally employed by PYCO's expert, and also includes some representations concerning the amount of land involved in "Alternative Two" and its value.⁵ PYCO's track NLV expert (Mr. Sneed) has elected to use Mr. Landreth's per unit salvage figures, and otherwise to incorporate Landreth's representations as to rail weight and quality insofar as he makes such representations.

(2) SAW represents that it owns certain track at Burris, which is located a couple miles south and east of Lubbock, and that it also possesses the right to provide service to a shipper (Jarvis) located there. Landreth represents that SAW owns

⁵ Indeed, Landreth's valuation was essentially identical overall to the valuation tendered by PYCO through its experts for Alternative Two.

approximately 1446 feet of track at Burris. See SAW Sept. 18 Response, Exhibit 2, Attachment 1, p. 21. BNSF informs PYCO that SAW has never served Jarvis, but that SAW claimed the right to do so as well as all BNSF's interests in track there under the SAW/BNSF contract. BNSF informs PYCO that BNSF opposed this construction of the contract on the ground that BNSF had no intent so to convey property or obligations to SAW because among other things it would be inefficient: it would unreasonably congest the BNSF main line to grant track time for such a move. BNSF states it all along has provided service at Burris. Nonetheless, SAW sued BNSF and has evidently obtained a favorable judgment from a local Texas court allowing it (SAW) to serve Burris. In order to avoid congestion, BNSF has agreed to pay SAW \$75 per carload so BNSF can continue to serve Jarvis. PYCO is not certain that the result reached by the Texas court is consistent with this Board's 1999 acquisition authorization and thus is enforceable. However, for purposes of the NLV calculation in this pleading, we again will assume arguendo that SAW owns the track it claims at Burris.

Based on the above, and as set forth in Exhibit A attached, SAW's expert calculates that the revised NLV for all track, ties, and salvageable material claimed by SAW for the all-SAW alternative is \$ 806,467.89.

Mr. Landreth's land valuation for "Alternative Two" was substantially less than PYCO's land valuation, in part because Mr. Landreth took into account the cost of land sales (estimated

at 15% by Mr. Landreth) and in part because Mr. Landreth employed a lower acreage. (Mr. Landreth indicates that SAW in fact owns only 22.60 acres east of the BNSF mainline whereas PYCO had assumed 36.647 acres.) Since Mr. Landreth evidently had the benefit of the deeds, and since PYCO adopted an approach which PYCO believed overstated SAW's ownership in the first place, PYCO defers to Mr. Landreth's estimate of 22.6 acres of SAW ownership east of the BNSF mainline.

Neither SAW nor Landreth in their pleading provide an estimate for total ownership west of the BNSF mainline differing from PYCO's calculations. PYCO at this time accordingly will reduce from 36.647 to 22.6 acres its estimate for the maximum amount of land SAW owns east of the BNSF mainline, and will not make an adjustment for ownership on the west side. Nonetheless, based on deeds provided for the first time on September 21, SAW has evidently made several sales of west side properties in the period February to April, 2006, in addition to purported sales subsequent to May 5 which this Board has already invalidated. We therefore continue to believe our estimate of total acreages (or square feet) owned by SAW on the west side of the BNSF mainline overstate SAW's actual ownership.⁶

⁶ PYCO has also preliminarily determined that it will request this Board to invalidate at least one of SAW's recent sales during the February-April period because the property SAW sold is necessary to provide adequate rail service to PYCO. PYCO intends to raise this matter as soon as time permits.

If PYCO is able to determine the land areas of the properties sold in time for rebuttal, PYCO reserves the right to adjust its calculation of total land owned by SAW west of the BNSF mainline (and resultant valuation) to conform to the

The only real estate appraisal evidence submitted in this proceeding is by PYCO. PYCO's appraiser indicated that land east of the BNSF mainline (which parallels Southeast Drive) has a value of \$4000 per acre (PYCO's original application, Exhibit D, p. 40). PYCO's appraiser had assumed SAW owned 36.647 acres in this area. SAW indicates it owns only 22.6. The value of this portion of SAW's land is thus \$90,400 rather than the \$147,000 originally estimated by PYCO's appraiser (i.e., a reduction of \$56,600). In other words, the adjustment to conform to Landreth's statement as to SAW's ownership reduces PYCO's total land valuation from \$1,782,800⁷ to \$1,726,200 (i.e., a deduction of \$56,600). Again, SAW provides no summation or claim as to the total acreage which it owns. PYCO employed a methodology which PYCO believes overstates what SAW owns. As a result, the \$1,726,200 figure represents an upper bound on the value of SAW land at \$1,726,200.

Mr. Landreth indicates that cost of sale would be 15%, which he represents in Attachment II to his statement (see line on p. 22 immediately before "net liquidation value") should be deducted from the gross valuation to achieve NLV. Based on discovery evidence.

⁷ PYCO's appraiser (Blosser) originally appraised all SAW land (assuming full fee ownership) at \$1,817,000 (Exhibit D1 to PYCO's original FLA in F.D. 34844). However, this valuation must be adjusted as a matter of law to take into account a SAW sale to Choo Choo of some of the property at a much lower value than the appraised value. See PYCO Industries' Modifications to Feeder Line Application, F.D. 34890, served 11 August 2006, at pp. 8-10. This results in a land valuation at least \$34,200 less, for a total of \$1,782,800.

consultation with PYCO's expert, PYCO concurs that cost of sale should be deducted from the appraised valuation. PYCO will here concur with Mr. Landreth's estimated 15% cost of sale for real estate. This reduces the maximum value of the land to \$1,467,270 (a reduction of \$258,930 for cost of sales).

As noted, PYCO has not had time to determine further reductions due to sales of land and appurtenances by SAW to Choo Choo and other entities earlier this year. PYCO reserves the right to supplement its calculations to take into account these sales out by SAW. Moreover, SAW has not revealed the price it charged for those sales. This might require a general deduction in the valuation if the sales were at values less than the Blosser appraised valuation.

PYCO's revised NLV estimate for all-SAW, based on SAW discovery to date, is thus:

-- land (\$1,467,270) plus rail/ties/OTM (\$806,467), for a total of 2,273,737, say \$2,274,000.⁸

III. Modifications to GCV

A. Summary of New Areas of Information/Argument

The information SAW supplied in response to PYCO's discovery pertaining to GCV falls into five main categories: (1) traffic data emphasizing that the bulk of the rail traffic is agricultural and tied to the production figures of the Texas

⁸ For comparison purposes, this is an increase by approximately \$214,000 over our previous all-SAW valuation. See PYCO Industries, Inc.'s Modifications to Feeder Line Application at p. 1, supra.

cotton belt; (2) Landreth's representation that SAW operates on 198,227 feet of track, of which it owns 133,884 feet, and statements (finally) by SAW suggesting its actual operating costs; (3) SAW's profit and loss and income tax returns; (4) SAW claims relating to track condition; and (5) SAW's claim that it recently entered into an agreement to accept \$75 per carload for traffic to Jarvis at Burris, which SAW is exacting to permit BNSF to continue to serve Jarvis so BNSF's mainline will not be congested.

SAW provided no information indicating that it expected any new customer on the line, or foresees any major increase in shipments by existing customers. To the contrary, Hanson Aggregates (which informed PYCO's consultant it has shipped 600 to 900 carloads per year in the recent past) has provided a letter to this Board stating it is no longer using SAW because of inadequate service.⁹ Although PYCO may be rail dependent, many other shippers obviously are not. In addition, PYCO must compete with other oil mills, and if PYCO's rail costs go up, PYCO becomes less competitive such that PYCO's demand for rail in fact will go down. In short, the record indicates elastic demand.

Another way to view the matter is that SAW, in support of its excessive valuation, contends in essence that all its

⁹ The letter is part of the packet of shipper comments served by PYCO in F.D. 34890 under cover letter dated August 2, 2006. The Hanson letter in the packet is dated August 1, 2006.

shippers are captive.¹⁰ It thus asserts that demand is inelastic, that it can arbitrarily impose a \$60/carload surcharge to increase its profit by that amount; and that any new owner should be required to compensate SAW on that basis. While PYCO is rail dependent such that SAW could stick PYCO with a surcharge (at least to the point of making PYCO incur the cost of going out of business or moving) if such a discriminatory surcharge were lawful, SAW provides no data to back up its ability to make any surcharge stick across the board, and all indications in the record are to the contrary. In particular, if SAW sought to impose a surcharge, major customers would leave SAW, others would reduce use of SAW or go out of business, and no substantial new business would be attracted. The fact that PYCO is rail dependent thus does NOT mean SAW or any other owner of SAW's lines can surcharge all customers on the line without loss of very significant chunks of its business. But these matters are in the nature of rebuttal, and will be discussed more thoroughly at that time.

In addition, demand for rail service on SAW lines in all events is highly variable. SAW itself has argued that cotton production, and thus rail traffic, vary depending on the weather conditions in the Texas cotton belt. PYCO concurs. This being

¹⁰ SAW's experts make the ridiculous assumption that because SAW claims the legal power to impose a \$60/carload tariff, it can successfully do so in the market. An Iowa farmer has the legal power to insist that he or she be paid \$5.00/bushel for corn, but that certainly does not mean anyone would pay that price.

the case, the variability of demand for rail service on SAW lines must obviously be taken into account in valuing SAW as a going-concern. Because of adverse weather conditions, PYCO's carloadings will drop by 4000 (roughly 2/3) for the crop cycle commencing October 2006. Other shippers of agriculturally-related commodities or materials will also require less rail service. This represents a significant decrease in demand--roughly 1/3 to 2/5 of total demand for SAW services in 2005.

Because discovery has supplied PYCO with more relevant data, PYCO's experts have re-calculated GCV pursuant to a more refined analysis. PYCO's expert, Mr. Banks, provides additional discussion in his statement attached as Exhibit B. In particular, Mr. Banks and his associates have prepared four GCV scenarios (Exhibit B, Tables 2-5) encapsulating possible projected futures for the SAW operations, based on discovery information to date. All scenarios are based on a more realistic base year for future projections than either 2004 or 2005. All scenarios assume a compounded 3.3 per cent growth rate (derived from data for the Texas cottonbelt). Table 2 excludes SAW's claimed Burris revenue, SAW's claimed \$20/carload PYCO surcharge, and the Hanson traffic. Table 3 includes Burris and PYCO surcharge, but excludes Hanson. Table 4 includes all three. Table 5 includes Burris and Hanson, but excludes PYCO surcharge. The calculated GCV's range from \$1,131,102 (lowest, Table 2) to \$3,032,436 (highest, Table 4). PYCO and its experts conclude that the highest reasonably expected GCV for the SAW

operations is set forth in Table 5 (the operation experiences traditional growth,¹¹ it does not charge surcharges,¹² and it wins back Hanson¹³). That GCV is \$2,300,745. This is approximately the same as the NLV (\$2,274,000) for SAW.

PYCO will briefly provide some highlights and important considerations relating to this information below.

1. Nature of business. Based on data derived through discovery, roughly 2/3 of SAW business is agriculture related. This business varies depending on weather conditions experienced in the Texas cotton belt. Years 2004 and 2005 were excellent crop years, with ideal weather conditions. Crop yields were at their maximum. 2006 is a drought year, with over 1 million acres of cotton lost completely. USDA estimates currently suggest production about 2 million bales below 2005 levels. PYCO projects it will not ship any cottonseed by rail in this cotton rush. This will reduce PYCO loadings by 4000 carloads alone. Based on a survey of local agricultural shippers, other SAW shippers similarly forecast a fall-off in rail use due to lower grain and cotton production.

Remaining shipments on SAW are chiefly building supplies and rock. Hanson Aggregates, one of SAW's two rock customers, indicates it will no longer ship on SAW due to inadequate rail

¹¹ There is no evidence to support any other assumption.

¹² Demand is too elastic, and discrimination is illegal.

¹³ This would require no surcharge and responsible business management.

service. Hanson Aggregates Letter of August 1, 2006, filed with Shipper Comments in F.D. 34890. No other non-agricultural shipper has indicated a plan for substantial increases in traffic. According to SAW's experts, all this indicates that 2005 (the only year for which PYCO has complete data) is not a good base year from which to project any increases in carloadings. To the contrary, shipments can be expected to be lower in 2006 and 2007 as a result of adverse crop conditions and Hanson's withdrawal from business with SAW. As a result, 2005 shipment levels vastly overstate the expected volume that would move over SAW lines even in the near future. Based on this information, SAW's experts have revised expected performance of SAW, with the result that GCV pre-rehabilitation goes down.

2. Additional feet of operated and owned track. Another category of new information (total feet of operated and owned track) obviously influences GCV estimates. PYCO's experts based their analysis of expenses on the assumption that SAW owns the roughly 74,000 feet of trackage stated in the 1999 STB decision and the BNSF/SAW contract, with some relatively minor adjustments for some trackage visibly retired, and for some very recently constructed track. If instead SAW operates on 199,227 feet of which it owns 133,884 feet as claimed by SAW's expert Landreth, then maintenance of way and rehabilitation expenses might be expected to go up from PYCO's previous estimates. However, insofar as possible, PYCO's experts have shifted to use

SAW's actual costs as represented by SAW witness Plaistow.

The additional trackage does not have an affect on rehabilitation estimates because PYCO's experts never recommended rehabilitation of all SAW trackage, but only key (and heavily used) portions.

3. Profit/loss and income tax data. As to profit and loss data and federal income tax returns, none of this was marked for protection under the protective order by SAW, so it may be publicly discussed. The profit/loss statements and federal income tax reports which SAW tendered PYCO are set forth below. For comparison, PYCO also sets forth the highly constructed before tax estimate of profit and loss prepared by SAW's witness Plaistow (exhibit 49 to Exhibit 1 to SAW's Sept. 18 response).

	<u>profit/loss</u> ¹⁴	<u>US Form 1065</u>	<u>Plaistow pro forma, Ex 49</u>
2005 --	\$355,452.58 ¹⁵	not supplied	480,328
2004 --	22,026.06	88,400	-42,985
2003 --	31,428.56	54,881	-43,517
2002 --	113,337.82	283,081	220,742
2001 --	47,056.13	21,917	103,375
2000 --	See note A	-3,642	69,399
Approx Average	114,000	107,000	131,000
Approx present value ¹⁶	1,100,000	1,070,000	1,310,000

Note A: The profit/loss sheets tendered for 2002 appear to indicate \$732,902.18 in costs, but no total for income, nor a statement as to net income or loss.

The approximate present values for the income streams indicated in all three of the above columns are within range of the lowest estimated GCV (not taking into account

¹⁴ The profit/loss figures appear to include income from "track jobs." Since Mr. Wisener, at all pertinent times the manager of SAW, also did track maintenance for third parties, substantial income (e.g., \$34,504.52 in 2005, \$92,465 in 2004, \$110,370.62 in 2003) appears to have derived from track work, not actual rail activity. PYCO believes the same is true of the tax returns furnished by SAW. Thus PYCO believes that the profit/loss and US Tax returns furnished by SAW considerably overstate actual SAW income from rail activities.

¹⁵ The figure for 2005 includes \$49,445 attributed to "surcharge from PYCO \$20.00 pc." In a Complaint filed before this Board, PYCO is contesting the lawfulness of this discriminatory surcharge. No surcharge has been sought or obtained from any other customer by SAW.

¹⁶ The figures in this row indicate the present value of the average historic net revenue streams using the standard rule of thumb of multiplying the average by for a 10% discount rate (the Board's is slightly greater) to derive an approximate present value based on past operations.

rehabilitation) established by PYCO's experts (Exhibit B, Table 2, calculates a \$1,131,102 GCV). This corroborates PYCO's GCV estimates, prior to rehabilitation, for it shows that if the railroad were to continue to perform in the future as it has under its current management, its going concern value (without regard to rehabilitation) is, among other things, less than its NLV. Any new owner would have to improve management of the SAW lines to achieve a higher GCV for the actual operation under SAW.

On discovery, SAW revealed no reason to expect any site-specific increase in demand for SAW's lines (i.e., no new customers, or marked change in operations leading to increased demand). Instead, due to drought conditions, agriculturally-related rail demand in Lubbock is now rapidly contracting, with PYCO alone expecting a reduction of 4000 carloads/year. Moreover, SAW has already lost significant non-agricultural business. Hanson Aggregates (roughly 600 carloadings in 2006) has indicated it will no longer use SAW lines due to inadequate rail service.

4. Track condition claims. PYCO notes that Delilah Wisener has purported to reclassify the previously "excepted" SAW track to Class I. PYCO's experts believe this reclassification to be contrived. PYCO's experts indicate that SAW's claims relating to track condition do not alter their opinion that substantial rehabilitation is needed. See Exhibit C (Verified Statement of Gene Davis, P.E.). At most, SAW's

assertions suggest only that track rehabilitation may be postponed for a few more years. But any economic gain from postponing track rehabilitation is offset by the increase in cost of track rehabilitation once it is undertaken. SAW's failure to take into account rehabilitation amounts to eating its capital and claiming that is income. But this is a topic for rebuttal.

5. Jarvis situation (Burris tracks). SAW claims that as a result of its litigation against BNSF, BNSF is compelled to pay SAW \$75 per carload for each car BNSF delivers to Jarvis at Burris. The only data SAW provides concerning number of cars BNSF delivers to Jarvis is indirect, in the form of revenues SAW imputes to itself from Burris traffic or projects into the future in the Plaistow statement (Exhibit 1 to SAW Sept. 18 filing, exhibit 49 at item 5 and exhibit 51 at item 20).¹⁷ PYCO's upper range revised GCV (set forth in PYCO's Exhibit B, tables 4 and 5) incorporates appropriate attention to the "rent" SAW is charging BNSF to continue to permit BNSF to serve BNSF's customer at Burris.

6. Captive shippers. SAW through Plaistow appears to contend that all shippers in Lubbock are captive and rail dependent such that it may impose a \$60 surcharge upon all of them (that being an amount it indicates BNSF was compelled to allow it to impose as a result of state court litigation), and

¹⁷ Plaistow projects Burris as steadily increasing, but shows that past imputed Burris income would have been variable.

thus is entitled to that revenue. To date, SAW has only attempted to charge a surcharge against one shipper (PYCO), and that in an amount of only \$20. PYCO is contesting that surcharge as, among other things, discriminatory and unlawful. PYCO takes that position here, and hereby incorporates its arguments already made in F.D. 34870 that SAW's arbitrary and discriminatory action violates at least 49 U.S.C. §§ 11101(a), 10702 & 10741.¹⁸ As noted, SAW provides no data suggesting that SAW or anyone else could successfully impose a non-discriminatory surcharge without loss of business effectively gutting the surcharge as a means of enhancing SAW's revenue. Without prejudice to PYCO's position that the \$20 attempted surcharge is unlawful, PYCO has included its impact in the upper range GCV calculation (Exhibit B, Table 4) tendered herewith. PYCO intends to discuss such matters further in rebuttal comments.

B. Calculated GCV

PYCO's experts, based on discovery adjustments, have calculated a GCV for SAW ranging from \$1,131,102 (Exhibit B, Table 2) to \$3,032,436 (Exhibit B, Table 4). The lower number does not include the rather tainted "fruit" from SAW's seemingly endless litigation against BNSF in the form of "rent" SAW now

¹⁸ Specifically, PYCO incorporates herein its pleading filed in PYCO Industries v. SAW, F.D. 34870 and Rail General Exemption Authority -- Misc. Agricultural Products -- PYCO Industries Inc. Petition for Partial Revocation, Ex Parte 346 (Sub-no. 14C) entitled "Reply to Motion to Dismiss and Motion/Petition for Immediate Revocation," under cover letter dated 25 May 2006.

charges BNSF so BNSF can continue to serve BNSF's customer Jarvis at Burris. The lower number takes out Hanson, which has left SAW due to inadequate rail service, and takes out any surcharge to PYCO as illegal. The higher number assumes Burris revenues stay in, that a new owner woos Hanson back, and that the new owner gets away with an illegal surcharge against PYCO.

The most realistic and favorable scenario for this operation is, however, represented in Exhibit B, Table 5. This scenario allows the new owner the Burris revenue and assumes that there are no surcharges and good management, such that Hanson comes back to the SAW lines. The GCV for this scenario is \$2,300,745, which as already noted is slightly above the NLV.

All these GCV's, however, assume no rehabilitation is needed. PYCO's experts, after review of all data supplied by SAW, and after inspection, adhere to the view that rehabilitation of SAW's lines is necessary. Taking into account rehabilitation renders GCV negative in all plausible scenarios. Exhibit B, Table 6.

It should be noted, however, that PYCO's expert (Mr. Davis of RL Banks & Associates) has never suggested that all SAW trackage be rehabilitated. Instead, he identified key facilities encompassing a total of slightly over ten miles of the SAW system. Moreover, although a subject more for rebuttal, SAW has misread PYCO's expert to imply that rehabilitation must be accomplished on all track immediately. This would be difficult for operational reasons in any event. Instead, as Mr.

Davis indicates in the statement attached as Exhibit C, rehabilitation would be done as a program over time. This would not materially affect overall cost or impact in terms of GCV, which would remain negative.

IV. Conclusion

Consonant with the above, the SAW NLV is \$2,274,000. The maximum plausible SAW GCV before correction for rehabilitation is \$2,300,745. But rehabilitation costs must be taken into account, and render GCV less than NLV. Exhibit B, Table 6. Thus the price for SAW under the feeder line statute should be set at no greater than \$2,274,000, under assumptions favorable to SAW and taking into account all discovery data to date.

Respectfully submitted,



Charles H. Montange
for PYCO Industries, Inc.
426 NW 162d St.
Seattle, WA 98177
(206) 546-1936
fax: -3739

Of counsel:

Gary McLaren, Esq.
Phillips & McLaren
3305 66th St., Suite 1A
Lubbock, TX 79413
(806) 788-0609
for PYCO Industries, Inc.

Exhibit A -- Third Sneed Declaration (NLV track/ties)
Exhibit B -- Verified Statement of Charles H. Banks (GCV)
Exhibit C -- Verified Statement Gene A. Davis, P.E. (rehab)

Certificate of Service

By my signature below, I certify service upon the following counsel of record by express (next business day) by timely deposit with an express service provider on 28 September 2006:

Thomas McFarland
208 South LaSalle St., Suite 1890
Chicago, IL 60604-1112 (SAW)

William A. Mullins
Baker & Mullins
2401 Pennsylvania Ave. NW #300
Washington, D.C. 20037 (KJRY)

William Sippel
Fletcher & Sippel
29 North Wacker Drive, Suite 920
Chicago, IL 60606-2875 (USRP)

John Heffner
1920 N Street, NW #800
Washington, DC 20036 (WTL) (by fax)

Adrian Steel
Mayer Brown Rowe & Maw
1909 K Street, NW
Washington, D.C. 20006-1101 (BNSF)

Andrew Goldstein
McCarthy, Sweeney & Harkaway
Suite 600
2175 K Street, N.W.
Washington, D.C. 20037 (SCO)



Exhibit A

BEFORE THE
SURFACE TRANSPORTATION BOARD

PYCO INDUSTRIES, INC. --)
FEEDER LINE DEVELOPMENT --) F.D. 34890
SOUTH PLAINS SWITCHING LTD.)

THIRD DECLARATION
Of MONTEY SNEED

I, Montey Sneed, make this Third Declaration pursuant to 28 USC § 1746, in support of the feeder line application filed by PYCO Industries, Inc. (PYCO), in F.D. 34890.

1. Summary. I have reviewed the discovery responses provided by South Plains Switching, Ltd. (SAW) on September 21, 2006, which incorporates SAW's filing on September 18, 2006, with respect to the net liquidation value (NLV) of track, ties, and other track material (OTM) on SAW's lines in Lubbock. On the basis of that information, I am adjusting my NLV estimates for track, ties and OTM. I will first summarize the adjustments I believe required, and then provide my revised NLV estimate for track, ties and OTM for all of the trackage owned by SAW. The spreadsheet attached as Exhibit I summarizes my calculations. I calculate that the NLV for track/ties/OTM for all of SAW is no greater than \$806,467.89.

2. Per unit salvage values. SAW did not supply an actual estimate of NLV for the track, tie and OTM which it owns. SAW did supply an actual estimate for NLV for "Alternative Two." That

estimate is set forth in Exhibit 2 to SAW's September 18 filing (Landreth Statement), at p. 22, Attachment 2. The per unit salvage values (e.g., relay rail at \$450 per net ton) used by Mr. Landreth are set forth at the bottom of said Attachment 2. All these per unit salvage values are very close to those employed by me in my original estimates. To minimize conflict, I have adopted them for my revised calculation of NLV.

3. Total trackage owned by SAW. I based my previous estimates of total track feet owned by SAW on the representations of SAW and BNSF in their contract, and in the acquisition exemption filing with the Surface Transportation Board by which SAW was authorized to acquire the tracks which it operates in Lubbock (approximately 74,384 feet). I adjusted that number for observed track retirements and track I understood SAW to be in the process of constructing, to derive a total of 78,920 feet (14.94 miles), which I assumed all owned by SAW in the absence of any discovery data from SAW. In the Landreth statement, Landreth asserts that SAW operates on 198,277 track feet and owns 133,884 track feet (SAW Sept. 18 filing, Exhibit 2, p. 4). Landreth's Attachment 1 (pp. 19-21) purports to be a summary of track on which SAW operates, dividing it into track owned by SAW and track owned by industry. SAW supplied PYCO's counsel with a plethora of track agreements and deeds on September 21, but we obviously have not had time to review that to confirm or to refute the information in Landreth's

Attachment 1. I have reviewed several deeds issued by SAW to Choo Choo Properties and others in February and April of this year (2006) which purport to convey out what appear to be substantial sections of SAW land and trackage. It is not clear that these conveyances are reflected by Landreth. However, for purposes of my revised NLV valuation, I will assume that all 133,884 which Landreth claims that SAW owns is owned by SAW.

4. Grade/weight of rail. For all track and ties covered by Landreth's "Attachment 2" referenced above, I employed his representations of weight and grade. (This rail basically is that covered by PYCO's original "Alternative Two.") SAW makes no representations concerning the remainder of its rail. Because the rail is otherwise a mix of 85 and 90 pound rail that is worn out and has not been replaced for decades, I treated it in a fashion favorable to SAW as all 90 pound re-roll quality. The effect of this treatment is to use 85 pound tonnages only for rail SAW through its witness admits is 85 pound, to incorporate all 110 pound valuations SAW asserts, to credit SAW for all re-roll SAW asserts in its discovery response, and to treat as scrap that rail which SAW admits is scrap. Similarly, this treatment is otherwise favorable to SAW in treating all remaining rail as 90 pound re-roll. Much of this is scrap and/or 85 pound.

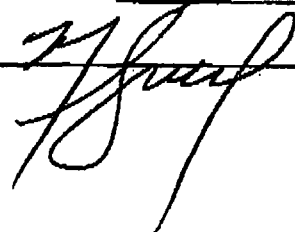
5. Other adjustments. I continue to treat ties as a wash. Most ties are in poor condition, and once unearthed would decompose

quickly. Removal and disposal costs for ties are a minimum of \$2/tie. Based on my earlier inspection, the number of junk ties would overwhelm the ties that could be re-used, or employed for landscape such that ties are a net negative. Based on my earlier inspection, I have determined that there are at least 15,000 square feet of crossings which must be replaced/repared. Based on actual repair estimates, I conclude \$10/square foot is an average repair/replacement cost. Landreth gives \$70/ton for cost of rail/OTM removal and freight. Based on market research, \$75/ton is a more accurate figure. A salvage contractor would also require compensation for overseeing the job and some level of profit for assuming the risk of the transaction. Based on my experience, this compensation varies from 15% to 50% and usually is at least 25%. I have assumed the minimum (15%).

6. Conclusion. The attached spread sheet sets forth my calculation of the NLV for track, ties and OTM for all-SAW based on my inspection, as supplemented by SAW's discovery responses. I believe this likely overstates actual NLV due to assumptions favoring SAW which I employed in preparing the calculation. I am also concerned about sales of land and track by SAW to third parties, including Choo Choo Properties, and am continuing to examine the implications of such matters for NLV and operations generally.

Pursuant to 28 U.S.C. § 1746, I declare and verify under penalty of perjury under the laws of the United States of America that the foregoing is true and correct.

Executed on Sept. 26, 2006



I, Charles Montange, do hereby declare and verify under penalty of perjury under the laws of the United States of America that the foregoing is true and correct.



Crossing removal & repair	- \$10.00	per sq. ft.	15,000sqft	\$150,000.00
Takeup & Freight		Total Tons	\$ Per Ton	
		4391.5171	\$75.00	\$329,363.78
		Gross	Net	\$948,785.75
	Salvagers	Profit	15.00%	\$142,317.86
		Purchase	Price	\$806,467.89

Exhibit B

**Before The Surface Transportation Board
STB Finance Docket No. 34890
PYCO Industries, Inc., et al. – Feeder Line Application --
Lines of South Plains Switching, Ltd. Co.**

**Verified Statement (Based on Discovery)
of
Charles H. Banks**

Before The Surface Transportation Board
STB Finance Docket No. 34890
PYCO Industries, Inc., et al. – Feeder Line Application --
Lines of South Plains Switching, Ltd. Co.

Verified Statement (Based on Discovery)
of
Charles H. Banks

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**Before The Surface Transportation Board
STB Finance Docket No. 34890
PYCO Industries, Inc., et al. – Feeder Line Application --
Lines of South Plains Switching**

**Verified Statement (Based on Discovery)
of
Charles H. Banks**

Qualifications

I am the same Charles H. Banks, P.E., a consultant and President of the firm, R.L. Banks & Associates, Inc. (RLBA) who filed a previous Verified Statement on May 3, 2006 in connection with Docket 34844 and a Revised Verified Statement on August 11, 2006 in this proceeding. My qualifications were detailed in Exhibit A of the original statement. I appear in this proceeding on behalf of PYCO Industries, Inc. (PYCO).

Scope of Testimony

PYCO requested me to consider making any changes I deemed appropriate to my Revised Verified Statement in light of the significant amount of information provided by South Plains Switching, Ltd. Co. (SAW) and its consultants in response to various discovery interrogatories.

I understand that at a later date I will be given the opportunity to furnish a Rebuttal Verified Statement in response to the statements made by Mr. Thomas F. McFarland and Mr. Joseph J. Plaistow as part of SAW's September 15, 2006 filing regarding this Feeder Line Application as well as Mr. Plaistow's Verified Statement signed August 1, 2006. Given that understanding, on the advice of PYCO's legal counsel, this Verified Statement addresses only those changes I believe appropriate to make to my going concern valuation estimates in the preceding record as to the entire

entity known as SAW, which I have characterized in my earlier Statements as the *All SAW Scenario*.

Approach To Revised Going Concern Values of the *All SAW Scenario*

Before I detail my revised going concern values and the key assumptions upon which they are based, I want to address two overarching issues.

First, there is a tremendous amount of new information provided in SAW's discovery responses. In light of the procedural schedule, I have focused my analysis on the key issues which affect value and in essence have given SAW the benefit of the doubt with respect to less significant matters. This approach has allowed me to cut to the chase, so to speak. Moreover, many are matters which are more appropriate for rebuttal and I expect to address them further there.

Second, as I will make clear in my Rebuttal Verified Statement, SAW's attorney and witnesses have made a number of both charges and ad hominem attacks that are both highly inappropriate and, in some cases, downright incorrect, as I look forward to showing. Suffice it to say for now that all the going concern values I have advanced and will advance in this matter address the value to the seller, not the buyer because I have recognized from the beginning that that is the appropriate standard. Similarly, contrary to the invectives hurled by the other side, I agree with SAW and its economics witness that estimations of going concern values should be superior to the extent that they: 1) are based on actual results as opposed to hypothesized or estimated ones and 2) reflect reasonable assumptions about the future prospects of an enterprise (are forward looking) as opposed to those based solely on consideration of historical facts (are backward looking). However, just because one party expresses a basis for a forward looking projection does not mean that such a projection is correct or that the fundamental assumptions underlying that projection are sound.

I have developed five sets of going concern values in this Statement. Like the going concern values advanced by Mr. Plaistow, all five sets of my going concern valuations

estimates are derived from the actual historical financial performance reported by SAW. They vary from each other to the extent that they exclude or include revenues associated with three variables:

1. the inclusion or exclusion of SAW revenues associated with \$20 surcharges assessed only against SAW;
2. the inclusion or exclusion of SAW revenues associated with Jarvis Metals at Burris, TX and
3. the inclusion or exclusion of SAW revenues associated with Hanson Aggregates, Inc. business.

Unlike Mr. Plaistow, my forward looking going concern valuations are realistic, particularly with respect to growth in SAW agricultural and non-agricultural freight revenues. Other than with respect to the items noted above, my going concern valuations vary from the going concern values advanced by SAW in three other important respects:

4. the appropriate base year traffic forecast;
5. the index employed to forecast out-year non-agricultural SAW traffic and
6. the index employed to forecast out-year agricultural SAW traffic.

Each of the six variances noted above is discussed below, sequentially.

First, I do not believe that it is appropriate to reflect the inclusion of any surcharges in the subject going concern valuations unless the reduced traffic impact of those surcharges also is reflected. SAW and its witness, Mr. Plaistow, argue vociferously that SAW has every right to exercise not only a \$20 surcharge on all PYCO loads but also a \$60 "Full Surcharge" on all of SAW's customers. Assuming SAW has the legal right to discriminate in that fashion, I accept the fact that SAW has every right to make foolish business decisions, even ones that could put it out of business, by driving away customers through excessive pricing. Only a fool or a desperate entity with a hidden

agenda would knowingly pay a going concern value based on the assumption that any, let alone many or all, customers of a railroad would tender as much business if the costs associated with tendering that business increased; in other words that the railroad faced a completely inelastic price elasticity of demand with respect to every one of its customers. It is simply fatuous to believe that in the face of higher costs, for-profit businesses would just roll over and pay the price. Neither Witness Plaistow or any other SAW witness or its counsel have provided any evidence that SAW's customers are insensitive to pricing, are "price inelastic" in economic vocabulary. Yet, that is exactly what is reflected in Witness Plaistow's going concern valuations. Burlington Northern Santa Fe (BNSF), which is not known or perceived by this witness to be a charitable, not-for-profit institution, has fought SAW's imposition of surcharges strenuously. The only motivation BNSF could have for its actions with respect to opposing surcharges is its expressed concern that the imposition of SAW's charges on PYCO and other traffic might cause BNSF to lose line haul freight revenues. I share that concern and expect that STB staff will also. Not only does public convenience and necessity demand consideration of the contributing impact of foolish SAW business decisions on BNSF's potential inability to earn its cost of capital. It also requires the STB to not countenance the acquisition of the SAW property at a going concern-based value, based on the unlikely realization of surcharges, and set so high that the "winner" of the contest is so saddled by acquisition debt that the subject property fails and requires reorganization or other actions that bring the property right back before the STB. Moreover, I believe that there is considerable evidence that significant chunks of the demand for rail service by SAW is price elastic. In particular, one major shipper (Hanson Aggregates, Inc.) already has stated in the record that it will not longer do business with SAW. This single decision alone will reduce demand by 600 to 900 carloads per year effective 2007 and all future years. If SAW or a successor imposes surcharges, other bulk shippers can be expected to move elsewhere or lower their uses.

Perhaps that is why I note that SAW's going concern valuations are carefully constructed to include both a "Full Surcharge" beginning at \$60, which is assessed against all SAW customers, as well as a fallback surcharge of \$20 assessed only

against PYCO traffic. I have somewhat mirrored the actions of SAW with respect to PYCO surcharges, both including a \$20 surcharge on PYCO carloads in one of my going concern valuation sets and excluding it from the other. If SAW, the only advocate of the subject surcharges, is so unsure of the weight of its argument as to backstop its advocacy, it behooves the STB, prospective buyers and me to be equally wary.

Second, I have adopted, and the enclosed going concern valuations reflect, a similar inclusion and exclusion of revenues associated with SAW revenues generated in connection with rail service to Jarvis Metals in Burris, TX. Although I find it a travesty of justice that a state court in essence found in favor of SAW's \$75 per carload extortion of BNSF for the privilege of not having to tolerate an adverse party congesting its main line trackage so as to be able to serve a customer only accessible by BNSF's main line, based on the facts before me, I find it prudent to reflect the inclusion of revenues generated in connection with Jarvis Metals in one of my two sets of going concern values so that the STB can consider same, should it not share my view with respect to Jarvis Metals freight revenue exclusion.

A third important element underlying the difference in going concern values between those estimated by Mr. Plaistow and those derived in this Statement concerns the exclusion or inclusion from SAW revenues in 2007 and all following years of traffic generated historically by Hanson Aggregates, Inc. Hanson's Vice President – General Counsel provided a letter dated August 1, 2006 in support of this Feeder Line Application as part of the Compilation of Shipper Comments filed August 2 with the Board. In that letter, Hanson's representative stated that "Hanson has no interest in bidding jobs in this market as long as SAW is the provider of the feeder [sic] rail service." Therefore, in some of my scenarios, I have excluded from SAW Revenue beginning in 2007, all revenues associated with the rail haul of that company's traffic. On the other hand, were SAW no longer to operate the subject property and were the successor company not to attempt to impose surcharges at any level, I believe it is conceivable that the traffic based tendered by Hanson to SAW historically could be regained and so I have included Hanson traffic revenue to SAW in some of my going

concern valuations. However, the inclusion of Hanson revenues in some of my going concern valuations is promulgated on the assumption that no surcharges would be assessed against it (or its competitors) because the low margins and nature of the aggregates business (and other bulk shippers and warehouses) served by SAW is such that the imposition of surcharges would drive business to other rail-served locations in Lubbock or to truck delivery.

The fourth major variance is the revenue forecast in the base year on which the forward looking financial projections are built. Obviously, if the base year is unrealistically low, a going concern value based on that base year would be too low. Similarly, a base year which is abnormally high would yield a going concern value which is unrealistically high to the extent that non-base year projections pivoted off of it.

All else being equal, use of the latest available full year's worth of data usually is preferable to any other. But, in this case, all else is NOT equal. The cotton crop harvest in the Lubbock area generally extends from October through January. As a result, a crop year tends to impact SAW's carloads of cotton-related shipments over both the year of and year following a given crop year. The 2004 and 2005 crop years in the Lubbock area were not at all typical or representative of what a buyer of SAW or SAW itself could expect to realize going forward in terms of cotton-related shipment volumes. Those abnormally high volume crop years distorted the financial performance of SAW in calendar year 2005, the foundation year on which Mr. Plaistow built all of his going concern valuations.

In contrast to Mr. Plaistow, whose forecast of rail carloadings of agricultural products vary based on a national forecast, I have chosen to rely on data provided solely in connection with the Lubbock area because I believe it sheds far more light on the issue of the appropriate base year. High Plains Cotton Growers, Inc., established in 1956, works in cooperation with other agricultural organizations at both the national and state levels, including the National Cotton Council, the Texas Farm Bureau, the Texas Agricultural Council, the Texas Ag Forum and numerous other organizations. Among

other things, it produces cotton statistics covering the 25 county area that surrounds Lubbock. Table 1 to my Verified Statement contains two sheets of data covering the cotton growing counties surrounding Lubbock during the period 1928 through 2005. It was reproduced from the web site page noted at the bottom of the table. In addition, Mr. Robert Lacy, of PYCO provided me data he obtained from the same organization's September update, pertaining to the first six numbers related to the crop year 2005, which have not yet been put up on the web site. I calculated the remaining four numbers related to crop year 2005, based on the methodology employed in the development of five- and ten-year averages in connection with prior years.

Those statistics are very interesting and critical to understanding the appropriate base year and volumes upon which future years should be projected to derive valid going concern values of SAW in its entirety.

The column labeled "No. Counties" is the number of counties in which sufficient cotton was grown to warrant inclusion in the statistical data. In 1928 through 1930, data from 18 counties surrounding Lubbock were included. That number declined to only 10 in 1933, during the "Dust Bowl" era and, except for one year, then stayed at 25 counties from 1946 through 2003 before it rocketed to 41 counties in crop years 2004 and 2005, the crop years Mr. Plaistow would have the Surface Transportation Board believe are representative of SAW's economic prospects with respect to SAW's going concern valuation.

The column labeled "Acreage Planted" declined from 4,644,900 acres in 1981 to 2,486,800 acres in 1983 and has since fluctuated between a low of 2,812,700 acres in 1989 and 3,875,600 acres in the 2000 crop year.

Table One

High Plains Cotton Production 1928-Present**1928-30 - 1940's - 1950's - 1960's - 1970's - 1980's - 1990's - 2000's**

Crop Year	No. Counties	Acreage Planted	Acreage Harvested	Production Yield/H.A.	Production Bales**	5-yr Average		10-yr Average	
						Yield/H.A.*	Bales	Yield/H.A.	Bales
1928	18	1,666,500	1,589,840	100.8	335,820				
1929	18	1,719,500	1,650,720	108.0	371,380				
1930	18	1,686,200	1,618,752	85.7	288,000				
1931	20	1,616,600	1,551,936	185.5	598,730				
1932	22	1,744,850	1,675,058	183.0	638,500	132.5	446,888		
1933	10	1,830,700	1,757,472	142.5	521,920	140.8	484,108		
1934	21	1,090,080	1,046,488	45.2	98,580	134.8	429,642		
1935	22	1,285,500	1,243,880	144.7	374,810	147.4	446,724		
1936	22	1,708,200	1,637,952	122.7	418,770	133.9	410,532		
1937	22	2,141,800	2,058,128	288.5	1,141,670	158.5	511,148	145.2	478,017
1938	22	1,492,200	1,432,512	158.3	472,450	182.2	501,252	150.9	482,680
1939	22	1,343,000	1,289,280	159.3	427,840	177.7	567,108	156.2	488,325
Crop Year	No. Counties	Acreage Planted	Acreage Harvested	Production Yield/H.A.	Production Bales**	5-yr Average		10-yr Average	
						Yield/H.A.*	Bales	Yield/H.A.	Bales
1940	22	1,488,800	1,427,328	181.4	478,820	180.0	588,090	184.3	517,407
1941	25	1,424,100	1,358,050	232.2	657,508	201.7	635,838	168.3	523,185
1942	25	1,547,100	1,441,700	232.9	689,383	189.0	547,402	172.8	529,274
1943	24	1,467,800	1,443,100	193.7	582,405	188.3	569,383	178.7	535,323
1944	25	1,323,210	1,291,180	234.6	831,041	210.3	610,033	193.2	588,571
1945	24	543,000	520,225	128.9	139,883	214.8	542,008	185.1	585,048
1946	25	835,800	767,080	154.9	247,547	202.1	460,014	201.9	547,828
1947	25	2,369,850	2,344,230	227.2	1,108,430	204.3	542,021	198.4	544,712
1948	25	2,357,450	2,287,870	149.1	710,480	188.9	567,838	192.6	588,515
1949	24	3,205,500	3,174,800	284.1	1,945,200	218.2	830,468	215.3	720,251
Crop Year	No. Counties	Acreage Planted	Acreage Harvested	Production Yield/H.A.	Production Bales**	5-yr Average		10-yr Average	
						Yield/H.A.*	Bales	Yield/H.A.	Bales
1950	24	1,908,830	1,787,880	230.5	858,480	225.7	974,227	221.7	788,117
1951	25	3,565,300	3,344,600	193.9	1,351,220	221.6	1,194,962	215.8	827,488
1952	25	3,902,500	3,633,700	200.1	1,515,160	215.2	1,276,108	211.9	809,055
1953	25	2,543,200	2,208,500	302.7	1,392,850	239.6	1,412,582	222.5	990,109
1954	25	2,529,600	2,420,300	329.0	1,659,100	242.8	1,355,382	233.3	1,082,915
1955	25	2,343,400	2,214,100	315.1	1,453,850	258.0	1,474,396	243.0	1,224,312
1956	25	2,292,000	2,090,700	394.2	1,716,950	295.5	1,547,542	258.1	1,371,252
1957	25	2,278,500	2,174,100	357.7	1,620,200	338.9	1,588,550	269.5	1,422,329
1958	25	2,309,400	2,186,000	458.7	2,088,950	388.7	1,707,770	288.8	1,580,176
1959	25	2,439,500	2,243,900	418.0	1,944,650	388.3	1,764,880	308.1	1,560,121
Crop Year	No. Counties	Acreage Planted	Acreage Harvested	Production Yield/H.A.	Production Bales**	5-yr Average		10-yr Average	
						Yield/H.A.*	Bales	Yield/H.A.	Bales
1960	25	2,430,200	2,249,700	430.7	2,018,800	411.8	1,877,910	324.9	1,676,153

Table One

1961	25	2,583,440	2,418,000	485.5	2,443,900	430.9	2,023,300	359.5	1,785,421
1962	25	2,525,900	2,374,900	479.0	2,369,850	454.7	2,173,230	397.7	1,870,890
1963	25	2,343,100	2,178,300	474.7	2,154,350	457.8	2,186,310	414.5	1,947,040
1964	25	2,408,000	2,094,500	447.5	1,932,860	484.1	2,187,912	426.9	1,978,398
1965	25	2,273,300	2,149,200	513.9	2,301,100	480.4	2,244,372	446.5	2,081,141
1966	25	1,544,400	1,458,300	450.8	1,367,800	475.0	2,028,112	451.9	2,028,208
1967	25	1,450,600	1,249,100	475.0	1,236,020	473.9	1,802,346	463.2	1,987,788
1968	25	1,749,450	1,608,400	486.1	1,882,300	477.9	1,703,936	466.4	1,945,123
1969	25	2,173,950	1,947,700	349.6	1,418,600	455.7	1,597,124	460.6	1,892,518
Crop	No.	Acreage	Acreage	Production	Production	5-yr Average		10-yr Average	
Year	Counties	Planted	Harvested	Yield/H.A.	Bales**	Yield/H.A.*	Bales	Yield/H.A.	Bales
1970	25	2,277,200	2,174,700	380.0	1,721,750	421.4	1,481,254	455.1	1,862,813
1971	25	2,499,700	2,322,400	284.4	1,279,150	377.6	1,463,584	428.6	1,746,338
1972	25	2,657,800	2,356,400	456.9	2,242,850	383.9	1,664,930	425.9	1,733,638
1973	25	2,825,050	2,784,000	498.1	2,888,700	395.7	1,910,210	430.6	1,807,073
1974	25	2,626,100	2,173,000	263.5	1,193,100	379.0	1,865,110	410.9	1,731,117
1975	25	2,712,600	2,444,750	278.8	1,420,200	358.6	1,804,800	384.4	1,643,027
1976	25	2,786,300	2,608,100	365.5	1,988,500	377.7	1,948,270	377.7	1,704,917
1977	25	3,749,600	3,636,800	424.1	3,215,400	376.4	2,140,780	379.8	1,902,855
1978	25	4,043,000	3,584,300	274.4	2,049,100	327.7	1,972,880	358.0	1,841,535
1979	25	4,585,800	3,789,250	348.5	2,750,800	341.2	2,284,400	357.2	2,074,755
Crop	No.	Acreage	Acreage	Production	Production	5-yr Average		10-yr Average	
Year	Counties	Planted	Harvested	Yield/H.A.	Bales**	Yield/H.A.*	Bales	Yield/H.A.	Bales
1980	25	4,627,000	4,002,000	246.2	2,053,000	328.3	2,410,960	340.6	2,107,880
1981	25	4,644,900	4,473,500	377.9	3,522,000	334.7	2,718,080	351.4	2,332,185
1982	25	3,685,700	2,380,900	259.2	1,285,600	307.0	2,332,100	336.7	2,236,440
1983	25	2,488,800	2,115,500	305.5	1,348,450	313.8	2,181,570	320.2	2,082,215
1984	25	3,349,400	3,102,800	359.6	2,324,250	314.5	2,105,260	327.9	2,195,330
1985	25	3,051,800	2,781,900	328.8	1,893,850	335.2	2,074,430	331.5	2,242,695
1986	25	2,982,700	1,878,800	302.5	1,184,200	314.6	1,608,870	326.9	2,162,465
1987	25	2,819,800	2,599,000	492.8	2,668,550	382.3	1,883,460	329.5	2,107,780
1988	25	3,227,000	3,119,200	497.8	3,234,700	402.5	2,281,110	353.4	2,226,340
1989	25	2,812,700	2,120,100	364.1	1,608,200	406.7	2,117,900	354.8	2,112,080
Crop	No.	Acreage	Acreage	Production	Production	5-yr Average		10-yr Average	
Year	Counties	Planted	Harvested	Yield/H.A.	Bales**	Yield/H.A.*	Bales	Yield/H.A.	Bales
1990	25	3,183,700	2,775,100	510.4	2,950,900	447.5	2,329,310	386.5	2,201,870
1991	25	3,481,800	2,922,900	382.3	2,327,700	453.5	2,558,010	387.5	2,082,440
1992	25	3,201,800	1,496,400	455.0	1,418,600	446.5	2,308,020	403.8	2,095,740
1993	25	3,243,100	2,992,200	554.9	3,458,800	458.8	2,352,840	429.4	2,308,975
1994	25	3,219,800	3,035,000	485.1	3,087,200	480.1	2,844,840	444.4	2,381,270
1995	25	3,621,800	3,274,800	385.4	2,629,300	451.3	2,580,320	449.5	2,454,815
1996	25	3,457,400	2,497,200	591.4	3,076,900	492.8	2,730,160	473.0	2,644,085
1997	25	3,543,500	3,302,600	498.4	3,415,500	497.3	3,129,540	473.9	2,718,780
1998	25	3,607,200	2,095,700	592.6	2,587,400	499.3	2,855,260	480.5	2,654,050
1999	25	3,828,300	3,072,800	469.9	3,008,400	486.0	2,843,500	488.3	2,794,070
Crop	No.	Acreage	Acreage	Production	Production	5-yr Average		10-yr Average	
Year	Counties	Planted	Harvested	Yield/H.A.	Bales**	Yield/H.A.*	Bales	Yield/H.A.	Bales
2000	25	3,875,800	2,637,100	389.8	2,302,800	500.4	2,878,200	475.9	2,729,260
2001	25	3,681,800	2,421,100	494.2	2,492,700	482.7	2,761,360	487.7	2,745,760
2002	25	3,592,200	2,625,900	551.3	3,245,600	493.9	2,727,380	495.7	2,928,460
2003	25	3,525,000	2,395,900	438.8	2,180,300	488.6	2,645,980	484.3	2,800,810
2004	41	3,877,000	3,273,400	715.0	4,877,800	527.0	3,019,800	511.2	2,918,850
2005	41	3,703,000	3,425,000	796	5,677,000	618.29	3,694,640	560	3,286,420

* Calculated

** 480 lb. Net Weight Bales

Source: USDA, NASS

Pages created by Plains Cotton Growers, Inc., 2004

The amount of "Acreage Harvested" fluctuated between 4,473,500 in 1981 and 1,496,400 in 1992. The amount of "Acreage Harvested" in crops years 2004 and 2005 were the most of any year since 1981, except for the 3,302,600 acres in 1997, which slightly exceeded 2004 crop year acreage.

The key thing, of course, is not how many acres farmers plant in cotton, or even how many bear plants worthy of harvesting. What is more important is yield, expressed in both total bales and bales per acre. That is even more instructive to the appropriate base year issue. The column labeled "Production Yield/H.A." shows the yield per acre harvested. It is calculated by multiplying the number of bales produced (from the numbers in the columns to the right of "Production Yield/H.A." values) by 480, which is the number of pounds of cotton in a bale and dividing the product of that multiplication by the number of acres harvested. The statistics in that column are startling. The yield, which exceeded 500 pounds per harvested acre only once prior to 1990, in 1965, and achieved a performance between 500 and 600 pounds per acre in the 1990's surged to 715 pounds per acre in the 2004 crop year and an even more fantastic 795 pounds per acre in crop year 2005.

When viewed from the perspective of the total Lubbock area production, not just yields, crop years 2004 and 2005 are even more astonishing. Prior to the 2004 crop year, total area production had exceeded 3,000,000 bales in only four years, reaching a peak of 3,458,800 million bales in 1993. That then record breaking year was shattered in the 2004 crop year when total production rocketed to 4,877,600 total bales, 41 percent more crop harvested than in any single year before. However, that incredible production accomplishment was decimated again in the 2005 crop year when production escalated to a total of 5,677,000 bales, 64 percent more than the previous pre-2004 crop record. In other words, the average of total production in the 2004 and 2005 crop years exceeded the highest previous five-year average bale production ever, 3,109,800 bales, by more than 50 percent! That is a clear indication that neither the

2004 nor 2005 cotton crop years in the Lubbock area are acceptable years on which to base any forward looking going concern valuations.

This raises the question of why the 2004 and 2005 cotton crop production numbers were so high. The simple answer is favorable weather, particularly moisture. The amount and timing of moisture in the Lubbock area in crop years 2004 and 2005 was perfect for raising record-breaking amounts of cotton. As a result, two things happened, yields soared to new highs and more acres were planted in cotton.

When farmers realized how moist conditions were during the planting season, they rotated into cotton. As a result, more acres of cotton were planted in crop years 2004 and 2005 than in crop years 2002 and 2003 and in eight of the ten years preceding the 1999 crop year. This sounds anything but typical to me.

Because of that phenomenon, the High Plains Cotton Statistics expanded its coverage area to include 41 counties in crop years 2004 and 2005, the first time it had ever raised the number above 25 counties. This sounds anything but typical to me.

More importantly, an unprecedented number of acres planted were actually harvested. In crop year 2001, more than 1,200,000 acres dedicated to planting cotton were not harvested. In every crop year between 1998 and 2003, the gap between the number of acres planted and those not harvested exceeded 750,000. In contrast, in crop year 2004, only 404,000 acres planted were not harvested, a gap which declined to only 278,000 acres in 2005. Again, this indicates that the 2004 and 2005 crop years were anything but typical.

Having absorbed and studied the above statistics and data reproduced in Table 1, I believe that any reasonable, independent and objective individual and surely experienced transportation industry professionals such as those at the STB will conclude that crop years 2004 and 2005 are not representative of the cotton crop in the Lubbock area. What is? It is essential that I, as an economic analyst, and the Surface

Transportation Board, as the ultimate authority in such matters, have a base period on which to construct SAW's future agricultural product carloads traffic volume forecast, which is a key driver of the subject going concern valuations. My recommended baseline revenue computation is described subsequently.

Fifth, SAW develops its out-year carload forecast as follows "[C]arloads are changed by 2/3 change in U.S. Department of Agriculture ("USDA") Upland Cotton forecast, 1/3 change in Energy Information Administration ("EIA") 2006 AEO forecasted ton-mile increases." (Note 2 to Exhibit 63 – SAW Excluding Burris Revenue Forecast – Full Surcharge.) This process cannot be replicated by me because the base year(s) and exact adjustment procedure are not specified.

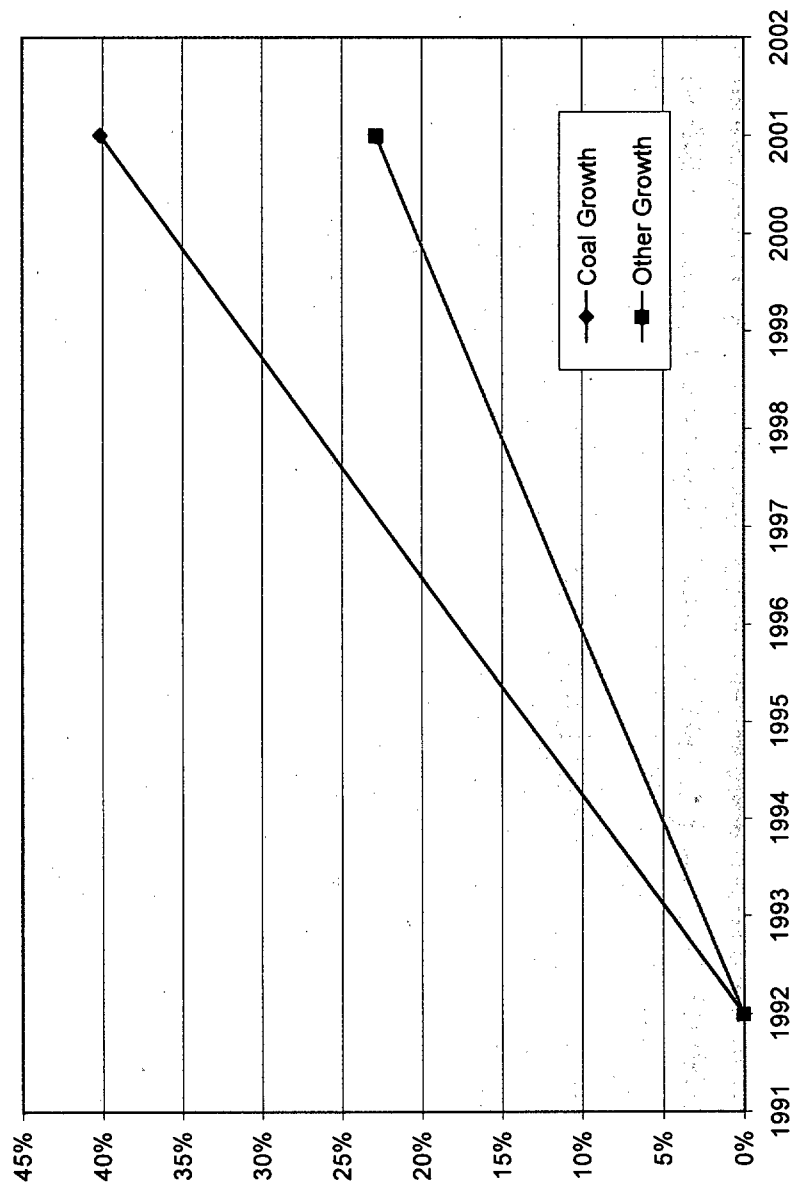
Nonetheless, I can determine that linking SAW's expected traffic with a broad-based railroad traffic forecast that includes all commodities is not appropriate. Two of the biggest drivers of the projected increase in total rail ton-miles are coal and intermodal, commodities which Mr. Plaistow knows are completely absent from SAW's traffic base.

Coal shipment length has been growing as Powder River Basin coal continues to expand its market penetration southward and eastward, causing the movement of more tons over ever greater distances. See Figure One, which compares the difference in the growth rate of coal ton-miles and non-coal ton-miles. Intermodal also has grown much faster than non-coal, non-intermodal rail traffic, as seen in Figure Two. A better comparison would be coal ton-miles versus ton-miles excluding coal and intermodal traffic. Unfortunately, intermodal ton-mile data is not consistently reported.

It may be seen from the two figures above that coal and intermodal, two traffic types that SAW does not participate in at all, are growing much faster than the remaining non-coal, non-intermodal rail traffic. In fact, a perusal of Figure Two reveals that carloadings, absent the coal and intermodal lines of business in which SAW does not participate, are flat since the beginning of this decade. Therefore, it is inappropriate for SAW to base its traffic forecast and going concern valuations on any index that includes

Figure One

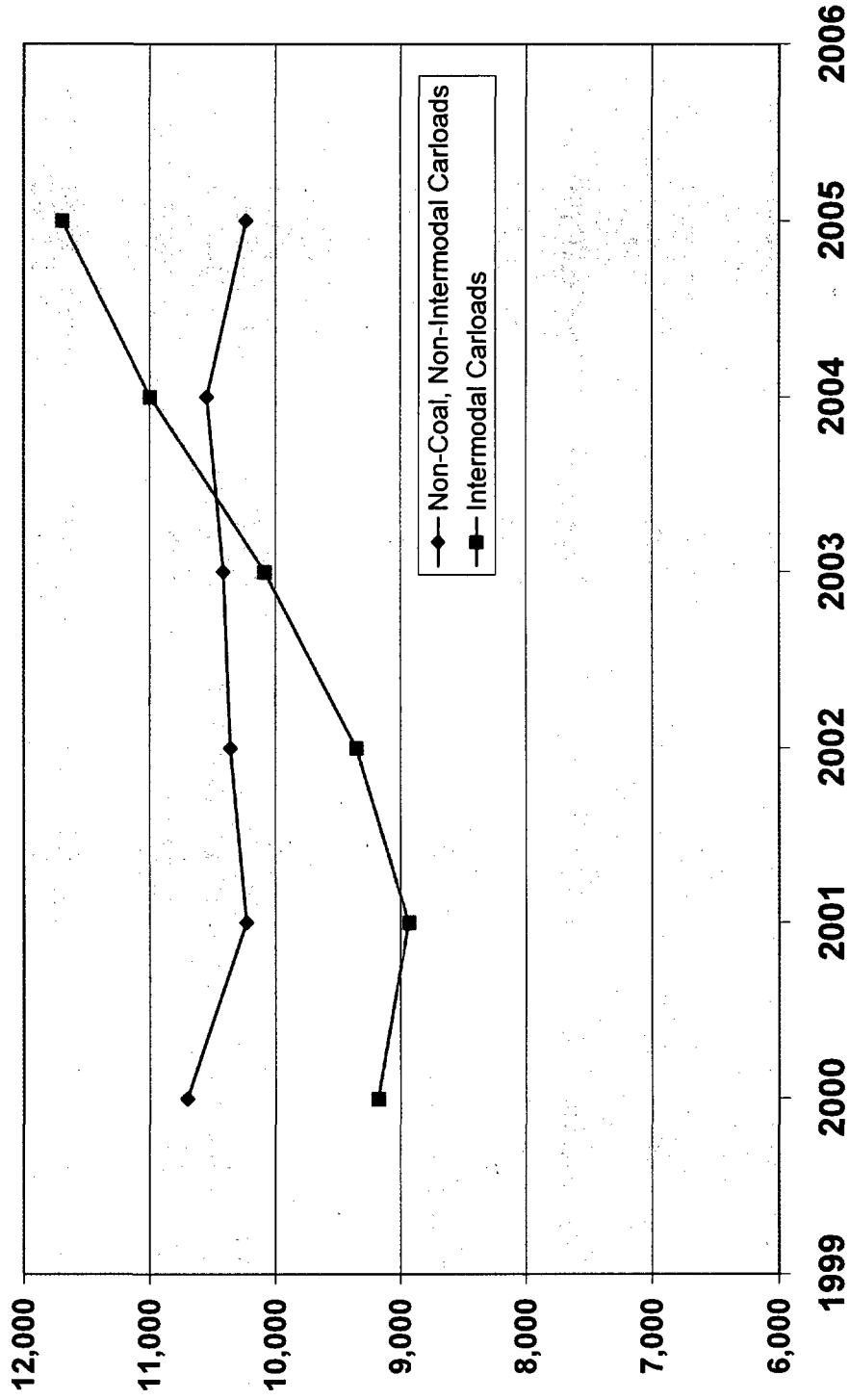
Growth in Coal Ton-miles vs. Other Ton-miles (Other Includes Intermodal)



Sources: Coalition for Affordable and Reliable Energy; RLBA.

Figure Two

Intermodal and Non-Coal, Non-Intermodal Carloads



Sources: Association of American Railroads Weekly Railroad Traffic Reports; RLBA.

those traffic segments in which it does not participate. As a result, my going concern valuations are based on my assumption that non-agricultural product carloadings of SAW will be steady at best. At my behest, my staff called current and previous customers of SAW, representing a majority of SAW's carloads in 2005, to inquire about future shipment volumes. In sum, that survey provided no foundation to support the notion that non-agricultural product shipment volumes by current or former SAW customers could be expected to increase in the future.

Sixth, I developed a forecast of 2006 "SAW Revenue" associated with the movement of agricultural carloads as follows. First, I examined SAW's freight revenues and determined that the two-thirds/one-third split attributed by Witness Plaistow to SAW's agricultural and non-agricultural traffic, respectively, was reasonable. Then, I multiplied the \$1,523,691 in 2005 SAW "Total Haulage Revenue," which I adopted without modification from Witness Plaistow's Exhibit 69, by two-thirds to reach a product of \$1,016,302, which I would associate with SAW agricultural product revenues. I then reduced that amount by 42.8 percent. That reduction mirrors the degree to which the average number of bales produced in the Lubbock production area (5,277,400) in crop years 2004 and 2005 exceeded the norm, as represented by the five-year average, also sourced from Table 1, page 2 of 2, or 3,694,640 bales. The SAW agricultural product revenues I calculated, \$711,696, was then added to the one-third balance of 2005 "Total Haulage Revenue," attributed by Witness Plaistow to SAW non-agricultural product carloads. To that sum, I also added the adoption of three numbers from Mr. Plaistow's Exhibit 69, \$20,445, \$392,918 and \$34,505, associated with "PYCO Other Revenue," "Other Operating Revenue" and "Contract Work," respectively, to reach a total of \$1,666,953 in "Adjusted SAW Revenue." I then employed that amount both in year 2006 of my going concern valuations and as a baseline upon which future year projections were built.

Out-year adjusted SAW agricultural revenues were developed by applying a much higher growth in SAW agricultural product carloads than advanced by Witness Plaistow. You might recall that SAW's witness employed a national forecast of cotton production

that resulted in index values that correlated with lower cotton production in all forecast years than in the base year on which his going concern valuations are built, 2005. That forecast adoption presumably resulted in fewer SAW agricultural product carloads in all forecast years than in the base year. But, since the forecast indexed off the base year, the inappropriate base year volume is, of course, reflected in all forecast years underlying Mr. Plaistow's bogus going concern valuations.

I agree that the likelihood of the cotton crop returning to the baseline Mr. Plaistow has woven into his going concern values is remote. I disagree with Mr. Plaistow with respect to the amount of reduction appropriate. I am not the least bit surprised that the index Mr. Plaistow has relied upon shows a maximum of only an approximately ten percent decline from record levels. One would expect that the law of large numbers would come into play across the entire nation and have an ameliorating effect; that's the nature of averages. And, therein lies the problem with the foundation of the going concern valuations Mr. Plaistow has crafted. Even a quick glance at the number of "Production Bales" in Table 1 shows that cotton production in the local, Lubbock region is far more volatile than suggested by the index adopted by Mr. Plaistow and that the decline in the national index in no way mirrors the boom in the local Lubbock market that presumably will ebb in the traditional pattern.

Conclusions

Based on methodologies and reasoning described above, my preliminary going concern value (GCV) estimate to SAW associated with the *All SAW Scenario*, excluding any revenues associated with serving Jarvis Metals at Burris, Texas and excluding any revenues associated with imposition of a full year's worth of \$20 surcharges assumed to be assessed only on PYCO traffic is \$1,131,102, as seen in Table 2 before accounting for any track and/or bridge structure rehabilitation. Further, if both the Jarvis Metals revenues and PYCO surcharges are taken into account, Table 3 presents a SAW GCV that approximates \$2,795,624 before any track and bridge rehabilitation. If one assumes that a new owner can convince Hanson to reverse its decision and return as a

Table 2
Going Concern Value of SAW Assuming 3.3 Percent Annual Agricultural Revenue Growth but Excluding Burris, \$20 PYCO Surcharge and Hanson Traffic

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Terminal Value
SAW Revenue	\$2,000,559	\$1,715,818	\$1,698,201	\$1,698,976	\$1,699,777	\$1,700,604	\$1,701,458	\$1,702,341	\$1,703,252	\$1,704,194	\$1,705,167	
Expenses	1,497,004	1,461,827	1,461,827	1,461,827	1,461,827	1,461,827	1,461,827	1,461,827	1,461,827	1,461,827	1,461,827	
Earnings Before Taxes and Depreciation	\$ 503,555	\$ 253,991	\$ 236,374	\$ 237,149	\$ 237,950	\$ 238,777	\$ 239,631	\$ 240,514	\$ 241,425	\$ 242,367	\$ 243,340	
Depreciation	67,992	56,942	57,835	58,145	58,218	58,753	59,195	59,219	59,648	60,520	61,473	
Earnings Before Taxes	\$ 435,563	\$ 197,049	\$ 178,539	\$ 179,004	\$ 179,732	\$ 180,024	\$ 180,436	\$ 181,295	\$ 181,777	\$ 181,847	\$ 181,867	
Income Taxes	152,447	68,967	62,489	62,651	62,906	63,008	63,153	63,453	63,622	63,646	63,653	
Net Income After Taxes and Depreciation	\$ 283,116	\$ 128,082	\$ 116,050	\$ 116,353	\$ 116,826	\$ 117,016	\$ 117,283	\$ 117,842	\$ 118,155	\$ 118,201	\$ 118,214	
Plus: Depreciation	67,992	56,942	57,835	58,145	58,218	58,753	59,195	59,219	59,648	60,520	61,473	
Plus: Decreases in Net Working Capital	-	-	-	(65)	(67)	(69)	(71)	(74)	(76)	(79)	(81)	
Less: Capital Expenditures	64,265	57,610	56,572	57,459	58,399	58,866	60,129	60,987	62,149	63,000	64,091	
Less: Increases in Net Working Capital	43,535	26,659	1,468	-	-	-	-	-	-	-	-	
Total Available Cash Flow	\$ 243,308	\$ 100,755	\$ 115,845	\$ 116,974	\$ 116,578	\$ 116,834	\$ 116,278	\$ 116,000	\$ 115,578	\$ 115,642	\$ 115,515	
Discount Factor at 10.1%	1.00	0.91	0.82	0.75	0.68	0.62	0.56	0.51	0.46	0.42	0.38	
Present Value of Cash Flows	\$ 91,512	\$ 95,566	\$ 87,645	\$ 87,645	\$ 79,335	\$ 72,216	\$ 65,279	\$ 59,149	\$ 53,527	\$ 48,644	\$ 43,896	\$ 434,333
Cumulative Present Value of Cash Flows	\$1,131,102											

Calculation of Terminal Value Assuming 2015 Cash Flow in Perpetuity

Year	Present		Year	Present		Year	Present		Year	Present		Terminal Value
	Discount Factor	Value of Cash Flow		Discount Factor	Value of Cash Flow		Discount Factor	Value of Cash Flow		Discount Factor	Value of Cash Flow	
2016	0.35	\$ 40,430	2031	0.08	9,241	2046	0.02	2,310	2061	-	\$ 434,333	
2017	0.32	36,965	2032	0.07	8,086	2047	0.02	2,310				
2018	0.29	33,499	2033	0.07	8,086	2048	0.02	2,310				
2019	0.26	30,034	2034	0.06	6,931	2049	0.01	1,155				
2020	0.24	27,724	2035	0.06	6,931	2050	0.01	1,155				
2021	0.21	24,258	2036	0.05	5,776	2051	0.01	1,155				
2022	0.19	21,948	2037	0.05	5,776	2052	0.01	1,155				
2023	0.18	20,793	2038	0.04	4,621	2053	0.01	1,155				
2024	0.16	18,482	2039	0.04	4,621	2054	0.01	1,155				
2025	0.15	17,327	2040	0.03	3,465	2055	0.01	1,155				
2026	0.13	15,017	2041	0.03	3,465	2056	0.01	1,155				
2027	0.12	13,862	2042	0.03	3,465	2057	0.01	1,155				
2028	0.11	12,707	2043	0.03	3,465	2058	0.01	1,155				
2029	0.10	11,552	2044	0.02	2,310	2059	0.01	1,155				
2030	0.09	10,396	2045	0.02	2,310	2060	0.01	1,155				
						2061	-	-				

Sources: All 2005 numbers and depreciation in all years sourced from September 16, 2006 Verified Statement of Joseph J. Plaistow, Exhibit 68. All other numbers developed by RLBA.

Table 3
Going Concern Value of SAW Assuming 3.3 Percent Annual Agricultural Revenue Growth, Burris and \$20 PYCO Surcharge but Excluding Hanson Traffic

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Terminal Value
SAW Revenue	\$ 2,047,434	\$ 1,828,146	\$ 1,834,015	\$ 1,859,051	\$ 1,884,914	\$ 1,911,630	\$ 1,939,227	\$ 1,967,736	\$ 1,997,184	\$ 2,027,605	\$ 2,059,030	
Expenses	1,499,113	1,463,423	1,463,423	1,463,423	1,463,423	1,463,423	1,463,423	1,463,423	1,463,423	1,463,423	1,463,423	
Earnings Before Taxes and Depreciation	\$ 548,321	\$ 364,723	\$ 370,592	\$ 395,628	\$ 421,491	\$ 448,207	\$ 475,804	\$ 504,313	\$ 533,761	\$ 564,182	\$ 595,607	
Depreciation	67,992	56,942	57,835	58,145	58,218	58,753	59,195	59,219	59,648	60,520	61,473	
Earnings Before Taxes	\$ 480,329	\$ 307,781	\$ 312,757	\$ 337,483	\$ 363,273	\$ 389,454	\$ 416,609	\$ 445,094	\$ 474,113	\$ 503,662	\$ 534,134	
Income Taxes	168,115	107,723	109,465	118,119	127,146	136,309	145,813	155,783	165,940	176,282	186,947	
Net Income After Taxes and Depreciation	\$ 312,214	\$ 200,058	\$ 203,292	\$ 219,364	\$ 236,127	\$ 253,145	\$ 270,796	\$ 289,311	\$ 308,173	\$ 327,380	\$ 347,187	
Plus: Depreciation	67,992	56,942	57,835	58,145	58,218	58,753	59,195	59,219	59,648	60,520	61,473	
Plus: Decreases in Net Working Capital	-	-	(489)	(2,086)	(2,155)	(2,226)	(2,300)	(2,376)	(2,454)	(2,535)	(2,619)	
Less: Capital Expenditures	64,265	57,610	56,572	57,459	58,399	58,866	60,129	60,987	62,149	63,000	64,091	
Less: Increases in Net Working Capital	43,609	21,248	-	-	-	-	-	-	-	-	-	
Total Available Cash Flow	\$ 272,332	\$ 178,142	\$ 204,066	\$ 217,964	\$ 233,791	\$ 250,806	\$ 267,562	\$ 285,167	\$ 303,218	\$ 322,365	\$ 341,950	
Discount Factor at 10.1%	1.00	0.91	0.82	0.75	0.68	0.62	0.56	0.51	0.46	0.42	0.38	
Present Value of Cash Flows	\$	\$ 161,800	\$ 168,343	\$ 163,314	\$ 159,103	\$ 155,025	\$ 150,211	\$ 145,408	\$ 140,429	\$ 135,601	\$ 130,844	\$ 1,285,746
Cumulative Present Value of Cash Flows	\$ 2,795,624											

Calculation of Terminal Value Assuming 2015 Cash Flow in Perpetuity

Year	Discount Factor	Present Value of Cash Flow	Year	Discount Factor	Present Value of Cash Flow	Year	Discount Factor	Present Value of Cash Flow
2016	0.35	\$ 119,683	2031	0.08	\$ 27,356	2046	0.02	\$ 6,839
2017	0.32	109,424	2032	0.07	23,937	2047	0.02	6,839
2018	0.29	99,166	2033	0.07	23,937	2048	0.02	6,839
2019	0.26	88,907	2034	0.06	20,517	2049	0.01	3,420
2020	0.24	82,068	2035	0.06	20,517	2050	0.01	3,420
2021	0.21	71,810	2036	0.05	17,098	2051	0.01	3,420
2022	0.19	64,971	2037	0.05	17,098	2052	0.01	3,420
2023	0.18	61,551	2038	0.04	13,678	2053	0.01	3,420
2024	0.16	54,712	2039	0.04	13,678	2054	0.01	3,420
2025	0.15	51,293	2040	0.03	10,259	2055	0.01	3,420
2026	0.13	44,454	2041	0.03	10,259	2056	0.01	3,420
2027	0.12	41,034	2042	0.03	10,259	2057	0.01	3,420
2028	0.11	37,615	2043	0.03	10,259	2058	0.01	3,420
2029	0.10	34,195	2044	0.02	6,839	2059	0.01	3,420
2030	0.09	30,776	2045	0.02	6,839	2060	0.01	3,420
			2061	-	-	2061	-	-
			Terminal Value					\$ 1,285,746

Sources: All 2005 numbers and depreciation in all years sourced from September 16, 2006 Verified Statement of Joseph J. Plaistow, Exhibit 62. All other numbers developed by RLBA.

customer and SAW revenue is enhanced by both a \$20 surcharge on PYCO carloadings and the Burris, TX traffic, the going concern value rises to \$3,032,436. As shown in Table 4. Finally, inclusion of Burris and Hanson traffic in SAW revenues but the elimination of any surcharge on PYCO or any other SAW customer yields a going concern valuation of \$2,300,745, as seen in Table 5. That is the most realistic of outcome and value in my opinion.

Since my associate, Mr. Gene A. Davis, P.E. and I continue to believe that the SAW property manifests deferred maintenance of way and structures, I believe that it is appropriate to subtract from the preliminary going concern values, noted above, amounts estimated to be necessary to rehabilitate the subject tracks to a steady-state maintenance level sufficient to sustain FRA Class 1 trackage with no deferred maintenance.

The subtraction of rehabilitation cost estimates provided in Table Two, page 8 of Mr. Davis's contemporaneously filed Verified Statement from any of the estimated going concern valuation estimates advanced in this Verified Statement, results in negative going concern valuations, as seen in Table 6 below.

Table 4
Going Concern Value of SAW Assuming 3.3 Percent Annual Agricultural Revenue Growth, Burris, \$20 PYCO Surcharge and Including Hanson Traffic

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Terminal Value
SAW Revenue	\$ 2,047,434	\$ 1,828,146	\$1,875,118	\$1,900,154	\$1,926,017	\$1,952,733	\$1,980,330	\$2,008,839	\$ 2,038,287	\$2,068,708	\$2,100,133	
Expenses	1,499,113	1,463,423	1,463,423	1,463,423	1,463,423	1,463,423	1,463,423	1,463,423	1,463,423	1,463,423	1,463,423	
Earnings Before Taxes and Depreciation	\$ 548,321	\$ 364,723	\$ 411,695	\$ 436,731	\$ 462,594	\$ 489,310	\$ 516,907	\$ 545,416	\$ 574,864	\$ 605,285	\$ 636,710	
Depreciation	67,992	56,942	57,835	58,145	58,218	58,753	59,195	59,219	59,648	60,520	61,473	
Earnings Before Taxes	\$ 480,329	\$ 307,781	\$ 353,860	\$ 378,586	\$ 404,376	\$ 430,557	\$ 457,712	\$ 486,197	\$ 515,216	\$ 544,765	\$ 575,237	
Income Taxes	168,115	107,723	123,851	132,505	141,532	150,695	160,199	170,169	180,326	190,668	201,333	
Net Income After Taxes and Depreciation	\$ 312,214	\$ 200,058	\$ 230,009	\$ 246,081	\$ 262,844	\$ 279,862	\$ 297,513	\$ 316,028	\$ 334,890	\$ 354,097	\$ 373,904	
Plus: Depreciation	67,992	56,942	57,835	58,145	58,218	58,753	59,195	59,219	59,648	60,520	61,473	
Plus: Decreases in Net Working Capital	-	-	(3,914)	(2,086)	(2,155)	(2,226)	(2,300)	(2,376)	(2,454)	(2,535)	(2,619)	
Less: Capital Expenditures	64,265	57,610	56,572	57,459	58,399	58,866	60,129	60,987	62,149	63,000	64,091	
Less: Increases in Net Working Capital	43,609	21,248	-	-	-	-	-	-	-	-	-	
Total Available Cash Flow	\$ 272,332	\$ 178,142	\$ 227,358	\$ 244,681	\$ 260,508	\$ 277,523	\$ 294,279	\$ 311,884	\$ 329,935	\$ 349,082	\$ 368,667	
Discount Factor at 10.1%	1.00	0.91	0.82	0.75	0.68	0.62	0.56	0.51	0.46	0.42	0.38	
Present Value of Cash Flows	\$	\$ 161,800	\$ 187,558	\$ 183,332	\$ 177,285	\$ 171,539	\$ 165,210	\$ 159,031	\$ 152,802	\$ 146,839	\$ 140,851	\$1,386,189
Cumulative Present Value of Cash Flows	\$	\$ 3,032,436										

Calculation of Terminal Value Assuming 2015 Cash Flow in Perpetuity

Year	Discount Factor	Present Value of Cash Flow	Year	Discount Factor	Present Value of Cash Flow	Year	Discount Factor	Present Value of Cash Flow
2016	0.35	\$ 129,033	2031	0.08	\$ 29,493	2046	0.02	\$ 7,373
2017	0.32	117,973	2032	0.07	25,807	2047	0.02	7,373
2018	0.29	106,913	2033	0.07	25,807	2048	0.02	7,373
2019	0.26	95,853	2034	0.06	22,120	2049	0.01	3,687
2020	0.24	88,480	2035	0.06	22,120	2050	0.01	3,687
2021	0.21	77,420	2036	0.05	18,433	2051	0.01	3,687
2022	0.19	70,047	2037	0.05	18,433	2052	0.01	3,687
2023	0.18	66,360	2038	0.04	14,747	2053	0.01	3,687
2024	0.16	58,987	2039	0.04	14,747	2054	0.01	3,687
2025	0.15	55,300	2040	0.03	11,060	2055	0.01	3,687
2026	0.13	47,927	2041	0.03	11,060	2056	0.01	3,687
2027	0.12	44,240	2042	0.03	11,060	2057	0.01	3,687
2028	0.11	40,553	2043	0.03	11,060	2058	0.01	3,687
2029	0.10	36,867	2044	0.02	7,373	2059	0.01	3,687
2030	0.09	33,180	2045	0.02	7,373	2060	0.01	3,687
			2061	-	-	2061	-	-
			Terminal Value					\$1,386,189

Sources: All 2005 numbers and depreciation in all years sourced from September 16, 2006 Verified Statement of Joseph J. Plaistow, Exhibit 62. All other numbers developed by RLBA.

Table 5
Going Concern Value of SAW Assuming 3.3 Percent Annual Agricultural Revenue Growth, Burris and Hanson Traffic but Excluding \$20 PYCO Surcharge

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Terminal Value
SAW Revenue	\$ 2,047,434	\$ 1,715,518	\$ 1,762,490	\$ 1,787,526	\$ 1,813,389	\$ 1,840,105	\$ 1,867,702	\$ 1,896,211	\$ 1,925,659	\$ 1,956,080	\$ 1,987,505	
Expenses	1,499,113	1,463,423	1,463,423	1,463,423	1,463,423	1,463,423	1,463,423	1,463,423	1,463,423	1,463,423	1,463,423	
Earnings Before Taxes and Depreciation	\$ 548,321	\$ 252,095	\$ 299,067	\$ 324,103	\$ 349,966	\$ 376,682	\$ 404,279	\$ 432,788	\$ 462,236	\$ 492,657	\$ 524,082	
Depreciation	67,992	56,942	57,835	58,145	58,218	58,753	59,195	59,219	59,648	60,520	61,473	
Earnings Before Taxes	\$ 480,329	\$ 195,153	\$ 241,232	\$ 265,958	\$ 291,748	\$ 317,929	\$ 345,084	\$ 373,569	\$ 402,588	\$ 432,137	\$ 462,609	
Income Taxes	168,115	68,304	84,431	93,085	102,112	111,275	120,779	130,749	140,906	151,248	161,913	
Net Income After Taxes and Depreciation	\$ 312,214	\$ 126,849	\$ 156,801	\$ 172,873	\$ 189,636	\$ 206,654	\$ 224,305	\$ 242,820	\$ 261,682	\$ 280,889	\$ 300,696	
Plus: Depreciation	67,992	56,942	57,835	58,145	58,218	58,753	59,195	59,219	59,648	60,520	61,473	
Plus: Decreases in Net Working Capital	-	-	(3,914)	(2,086)	(2,155)	(2,226)	(2,300)	(2,376)	(2,454)	(2,535)	(2,619)	
Less: Capital Expenditures	64,265	57,610	56,572	57,459	58,399	58,866	60,129	60,987	62,149	63,000	64,091	
Less: Increases in Net Working Capital	43,609	30,634	-	-	-	-	-	-	-	-	-	
Total Available Cash Flow	\$ 272,332	\$ 95,547	\$ 154,150	\$ 171,473	\$ 187,300	\$ 204,315	\$ 221,071	\$ 238,676	\$ 256,727	\$ 275,874	\$ 295,459	
Discount Factor at 10.1%	1.00	0.91	0.82	0.75	0.68	0.62	0.56	0.51	0.46	0.42	0.38	
Present Value of Cash Flows	\$	\$ 86,782	\$ 127,165	\$ 128,479	\$ 127,464	\$ 126,288	\$ 124,110	\$ 121,702	\$ 118,898	\$ 116,045	\$ 112,882	\$ 1,110,930
Cumulative Present Value of Cash Flows	\$ 2,300,745											

Calculation of Terminal Value Assuming 2015 Cash Flow in Perpetuity

Present Value of			Discount Factor			Present Value of			Discount Factor			Present Value of		
Year	Discount Factor	Cash Flow	Year	Discount Factor	Cash Flow	Year	Discount Factor	Cash Flow	Year	Discount Factor	Cash Flow	Year	Discount Factor	Cash Flow
2016	0.35	\$ 103,411	2031	0.08	\$ 23,637	2046	0.02	\$ 5,909	2061	-	\$ -	2051	0.01	\$ 2,955
2017	0.32	94,547	2032	0.07	20,682	2047	0.02	5,909	2052	0.01	2,955	2052	0.01	2,955
2018	0.29	85,683	2033	0.07	20,682	2048	0.02	5,909	2053	0.01	2,955	2053	0.01	2,955
2019	0.26	76,819	2034	0.06	17,728	2049	0.01	2,955	2054	0.01	2,955	2054	0.01	2,955
2020	0.24	70,910	2035	0.06	17,728	2050	0.01	2,955	2055	0.01	2,955	2055	0.01	2,955
2021	0.21	62,046	2036	0.05	14,773	2051	0.01	2,955	2056	0.01	2,955	2056	0.01	2,955
2022	0.19	56,137	2037	0.05	14,773	2052	0.01	2,955	2057	0.01	2,955	2057	0.01	2,955
2023	0.18	53,183	2038	0.04	11,818	2053	0.01	2,955	2058	0.01	2,955	2058	0.01	2,955
2024	0.16	47,273	2039	0.04	11,818	2054	0.01	2,955	2059	0.01	2,955	2059	0.01	2,955
2025	0.15	44,319	2040	0.03	8,864	2055	0.01	2,955	2060	0.01	2,955	2060	0.01	2,955
2026	0.13	38,410	2041	0.03	8,864	2056	0.01	2,955	2061	-	\$ -	2061	-	\$ -
2027	0.12	35,455	2042	0.03	8,864	2057	0.01	2,955	Terminal Value		\$ 1,110,930			
2028	0.11	32,500	2043	0.03	8,864	2058	0.01	2,955						
2029	0.10	29,546	2044	0.02	5,909	2059	0.01	2,955						
2030	0.09	26,591	2045	0.02	5,909	2060	0.01	2,955						

Sources: All 2005 numbers and depreciation in all years sourced from September 16, 2006 Verified Statement of Joseph J. Plaistow, Exhibit 62. All other numbers developed by RLBA.

Table 6
Going Concern Value Determinations

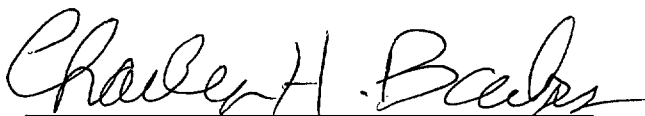
Considerations	Preliminary GCV	Rehabilitation Estimates (FRA Class 1)	286,000 Pound Rehabilitation Estimate	Resulting GCV
Excluding Jarvis revenues and PYCO surcharges (Table 2)	\$1,131,102	\$4,072,000		(\$2,940,898)
Excluding Jarvis revenues and PYCO surcharges (Table 2)	\$1,131,102		\$6,605,000	(\$5,473,898)
Including Jarvis revenues and PYCO surcharges (Table 3)	\$2,795,624	\$4,072,000		(\$1,276,376)
Including Jarvis revenues and PYCO surcharges (Table 3)	\$2,795,624		\$6,605,000	(\$3,809,376)
Excluding Jarvis revenues and PYCO surcharges (Table 4)	\$3,032,436	\$4,072,000		(\$1,039,564)
Including Jarvis revenues and PYCO surcharges (Table 4)	\$3,032,436		\$6,605,000	(\$3,572,564)
Excluding Jarvis revenues and PYCO surcharges (Table 5)	\$2,300,745	\$4,072,000		(\$1,771,255)
Including Jarvis revenues and PYCO surcharges (Table 5)	\$2,300,745		\$6,605,000	(\$4,304,255)

Source: RLBA

The figures in Table 6 represent my best estimates as to the GCV to SAW associated with the *All SAW Scenario*, given varying assumptions.

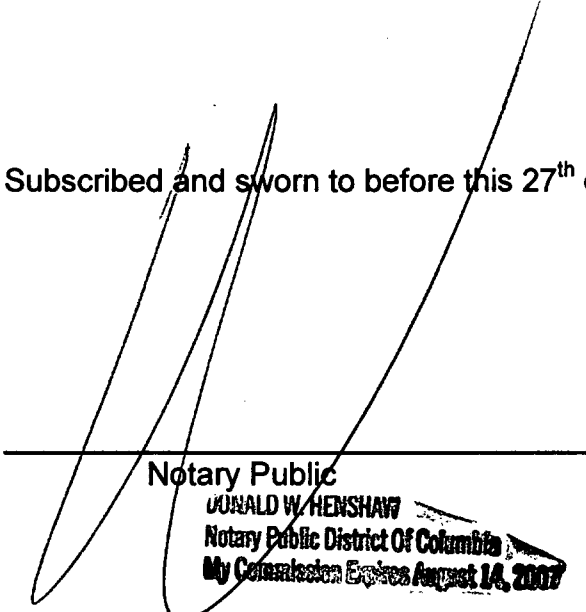
Verification

I, Charles H. Banks., verify under penalty of perjury that I am the same Charles H. Banks whose Statement of Qualifications appears in my initial Verified Statement's Exhibit A of PYCO Industries, Inc. Feeder Line Application STB Finance Docket No. 34890 in this proceeding; that I know the contents thereof; and that the same are true and correct. Further, I certify that I am qualified and authorized to file this statement.



Charles H. Banks

Subscribed and sworn to before this 27th day of September, 2006.



Notary Public

DONALD W. HENSHAW

Notary Public District Of Columbia

My Commission Expires August 14, 2007

Exhibit C

Before The Surface Transportation Board
STB Finance Docket No. 34890
PYCO Industries, Inc., et al. – Feeder Line Application --
Lines of South Plains Switching, Ltd. Co.

Verified Statement (Based on Discovery)
of
Gene A. Davis, P.E.

Before The Surface Transportation Board
STB Finance Docket No. 34890
PYCO Industries, Inc., et al. – Feeder Line Application --
Lines of South Plains Switching, Ltd. Co.

Verified Statement (Based on Discovery)
of
Gene A. Davis, P.E.

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**Before The Surface Transportation Board
STB Finance Docket No. 34890**

**PYCO Industries, Inc., et al. – Feeder Line Application --
Lines of South Plains Switching**

**Verified Statement (Based on Discovery)
of
Gene A. Davis, P.E.**

Qualifications

I am the same Gene A. Davis, P.E., a consultant with the firm of R.L. Banks & Associates, Inc. (RLBA) who filed a previous Verified Statement on August 7, 2006 in this proceeding. My qualifications were detailed in Exhibit A of that statement. I appear in this proceeding on behalf of PYCO Industries, Inc (PYCO).

Scope of Testimony

PYCO requested me to further refine my previous Verified Statement rehabilitation and maintenance cost estimates to reflect information provided in response to discovery interrogatories regarding current track conditions and lengths of track owned by South Plains Switching, Ltd. Co. (SAW).

I understand that at a later date I will be given the opportunity to furnish a Rebuttal Verified Statement in response to the statements made by Mr. Thomas F. McFarland and Mr. Edward W. Landreth, P.E. in the September 15, 2006 filing regarding this Feeder Line Application as well as Mr. Landreth's Engineering Inspection Report of Railroad Assets dated July 27, 2006. Given that understanding, on the advice of PYCO's legal counsel, this Verified Statement deals only with refinements to

rehabilitation and maintenance cost estimates that I believe are appropriate to make in connection with the *All SAW Scenario*.

Approach To Rehabilitation/Maintenance of Track in *All SAW Scenario*

While there are many different approaches to rehabilitating and/or maintaining railroad track and bridge structures, all generally fall into two categories. The first is to do the absolute minimum required to obtain the desired Federal Railroad Administration (FRA) Class track (and its associated speed limitations) while the second is to go above the minimum necessary to achieve the same FRA class of track in order to bring the subject track into a state that permits cost-effective operation and maintenance over the long term, thereby reaching the upper end of the maintenance requirements appropriate to that FRA class of track. There are both advantages and disadvantages relating to each type of rehabilitation and/or maintenance, which are illustrated below.

**Table One
Advantage and Disadvantages
Of
Track and Bridge Rehabilitation/Maintenance Approaches**

Approach	Advantages	Disadvantages
Minimal Requirements	1) Quick fix 2) Cheaper (short term)	1) Requires more subsequent annual maintenance 2) More expensive (long term)
Above Minimal Requirements	1) Longer lasting 2) Cheaper (long term) 3) Requires less subsequent annual maintenance	1) More expensive (short term)

Source: RLBA

Mr. McFarland and Mr. Joseph J. Plaistow assert using *Valuing a Business* as a guide, page 10, that value is forward looking. It is for that exact reason that the minimal maintenance expenditure relied upon at this time to hold the track at the minimum safety standard is not the appropriate figure to apply in determining future value. In order to achieve its full potential value, the property must be maintained in a cost-

effective manner to a physical condition sufficient to bear the expected traffic. Continuation of the present "band-aid" approach would be more expensive in the long run and would not support achieving the property's full potential value.

Messrs. McFarland and Landreth state that little or no rail and tie replacement is necessary to return the track to FRA Class 1. Since my inspection, SAW has reclassified its trackage as FRA Class 1¹ and quite possibly has performed a minimal amount of rail and tie rehabilitation. I believe that this minimal approach to track maintenance, while it attains the limited goal of permitting continual service, is short sighted.

The vast majority of the 85 and 90 pound per yard rail in SAW trackage was rolled in the 1910 and 1920's, prior to the institution of the "control-cooling" process in the mid 1930's. Useful rail life (especially in older rail such as SAW's) is a function of many track characteristics including curvature, grade, supporting tie conditions, drainage and others, however, the greatest determinant of useful rail life is cumulative tonnage. Most of SAW's main track, yard tracks, switching leads and passing track rail exhibited signs of many cumulative tons, witnessed by the rail head being flattened and metal flow to the field side of the rail (a sign of cumulative tonnage). It was noted by Mr. Landreth that in my cost estimates I estimated replacement rail to last approximately 150 years.² This is true due to current (replacement) rail being rolled utilizing advanced metallurgical procedures and being control-cooled.

Another need for rehabilitation is tie condition. Mr. Landreth states regarding tie condition in FRA Class 1 track that "The track in All-SAW complies with those requirements."³ While exposed areas allowing tie inspection sometimes illustrate FRA Class 1 compliant tie conditions, the vast majority of SAW trackage is covered by dirt, ballast or slag and/or contained within crossings. Under those circumstances, tie

¹ Landreth Verified Statement, September 6, 2006, Attachment 3, p.1 and 2

² Landreth Verified Statement, September 6, 2006, p. 7

³ Landreth Verified Statement, September 6, 2006, p. 9

inspection is not possible and tie condition is suspect. Replacement of enough ties to achieve and maintain FRA Class 1 track is the prudent and economical course.

In my over eighteen (18) years of experience with Norfolk Southern Corporation (NS) both constructing and **maintaining** track and bridge structures, I have found that the best and most economical (over the long run) method to approach track and bridge rehabilitation and/or maintenance work requires more than periodic repairs to achieve minimum track class requirements. This is especially true in attempting to overcome years of deferred maintenance.

During my years as an Assistant Track Supervisor, Track Supervisor, Bridge Supervisor and Assistant Division Engineer – Bridges on NS, I was exposed to numerous situations involving track and bridges exhibiting deferred maintenance conditions quite similar to that demonstrated by the SAW tracks that I walked during my physical inspection on July 24 and 25, 2006. In rehabilitating those tracks and bridges to FRA Class 1 or higher (depending on the desired speeds), I determined that doing the minimal amount of work simply postponed the inevitable approach of going above the minimal to consistently maintain the FRA Class of track. To **consistently** keep the SAW tracks in FRA Class 1 condition (and upgraded even further to handle 286,000 pound loads, if so chosen), it is my professional opinion, based on my expertise, that the following approach is necessary to address years of deferred maintenance.

Year One

- Perform an initial internal rail flaw detection test to determine the entire railroad's rail condition;⁴
- run a hydraulic study to determine the capacity requirements to replace the short two-span bridge just east of the BNSF main track (replace in Year One if capital money available);
- determine the top (worst) fifteen percent combined rail and tie conditions on the more heavily used tracks and rehabilitate as described in my first Verified Statement and

- continue to use the same minimal maintenance approach SAW is currently using on the other tracks.

Year Two

- Perform a follow-up initial internal rail flaw detection test;
- replace the open deck rail girder bridge (if not replaced in Year One);
- determine the next top (worst) fifteen percent combined rail and tie conditions on the more heavily used tracks and rehabilitate as in Year One;
- institute the maintenance activities set forth in my first Verified Statement on improved tracks and
- continue to use the same minimal maintenance approach SAW is currently using on un-improved tracks.

Year Three

- Perform a follow-up internal rail flaw detection test;
- determine the next top (worst) fifteen percent combined rail and tie conditions on the more heavily used tracks and rehabilitate as in Years One and Two;
- continue maintenance plan on improved tracks and
- continue to use the same minimal maintenance approach SAW is currently using on un-improved tracks.

Year Four

- Perform a follow-up internal rail flaw detection test;
- determine the next top (worst) fifteen percent combined rail and tie conditions on the more heavily used tracks and rehabilitate as in Years One, Two and Three;
- continue maintenance plan on improved tracks and
- continue to use the same minimal maintenance approach SAW is currently using on un-improved tracks.

Year Five

- Perform a follow-up internal rail flaw detection test (every other year after this year);

⁴ While it has not been implicitly stated, I believe that the SAW has not performed an internal rail flaw detection test in many years, if at all.

- determine the next top (worst) fifteen percent combined rail and tie conditions on the more heavily used tracks and rehabilitate as in Years One, Two, Three and Four;
- continue maintenance plan on improved tracks and
- continue to use the same minimal maintenance approach SAW is currently using on un-improved tracks.

Year Six

- Determine the next top (worst) fifteen percent combined rail and tie conditions on the more heavily used tracks and rehabilitate as in Years One, Two, Three, Four and Five;
- continue maintenance plan on improved tracks and
- continue to use the same minimal maintenance approach SAW is currently using on un-improved tracks.

Year Seven

- Rehabilitate the remainder of the tracks and
- continue maintenance plan on all improved tracks.

As can be readily seen, given a proactive approach, seven years of a rehabilitation program going above the minimally required amount of work overcomes many years of deferred maintenance and building upon a steady maintenance plan results in a much more stable track and bridge structure. Because of my past experience in constructing and maintaining track, I stand behind my initial thought process about the need to rehabilitate the SAW tracks and the unit cost estimates set forth in my first Verified Statement.

All SAW Scenario

Based on page 4 of Exhibit 2 to the September 18, 2006 Verified Statement of Mr. Landreth, the *All SAW Scenario* would entail acquiring all 133,884 feet or about 25.36 miles of SAW-owned track. PYCO instructed me to address the effect that the track footage differences (an increase from 15.47 miles in my August 7, 2006 Verified Statement, to 25.36 miles of SAW-owned track) brought to light during discovery would have on my rehabilitation and maintenance cost estimates. Utilizing the same

methodology and unit costs as in my first Verified Statement, Tables Two through Five on the next and following pages illustrate estimated rehabilitation and maintenance cost estimates. The differences occur primarily in the maintenance aspects of the cost estimates due to my not having access to other SAW properties during my July 24 and 25, 2006 physical inspection, having been allowed to inspect only Alternative Two Scenario tracks. The track requiring rehabilitation includes the main track, all SAW yard tracks, the passing siding east of the BNSF main track and the switching lead between SAW yard and the rock tracks. Other SAW switching leads may need rehabilitation, however I cannot attest to that. In other words, the additional track claimed by SAW does not significantly change rehabilitation estimates because I have concluded that only the heavily used track must be rehabilitated.

As in my August 7, 2006 Verified Statement, rehabilitation cost estimates only reflect upgrades to main and SAW yard tracks, switching leads as well as the passing siding (Track 9200) east of the BNSF main track. I have not provided for rehabilitation of very lightly used industrial tracks, nor am I proposing an alteration of SAW's minimal maintenance program on such tracks.

Conclusion

Due to witness Landreth's assertion that SAW actually owns and operates about 25.36 miles of track instead of the 15.47 miles originally reflected in my August 7, 2006 Verified Statement, my original rehabilitation and maintenance cost estimates required refinement. In my professional opinion, rehabilitation must be undertaken to overcome many years of deferred maintenance. Existing SAW track tie condition is poor in the areas where ties are actually able to be seen. Were PYCO to acquire all or a portion of the trackage, it would definitely require rehabilitation or upgrading of rail, ties and turnouts at the very minimum. Visible signs of deferred maintenance are present and manifest in SAW's minimal approach to maintenance of way and structures activities.

Table Two

Rehabilitation Costs *All SAW Scenario*

Per-Mile Cost to Rehabilitate with 90# Rail

Rail Replacement	\$190,000
Tie Replacement	48,000
Ballast Replacement	<u>21,000</u>
Total/Mile	\$259,000
Miles of Rehabilitated Track Needed	10.45
Subtotal	\$2,707,000

Turnout Replacement (38)	900,000
At-Grade, Highway-Rail Crossing Replacement (24 public, 7 private)	435,000
Miscellaneous Renewal	<u>30,000</u>
Subtotal	\$1,365,000

Estimated Cost of Rehabilitation = \$4,072,000

Per-Mile Cost to Rehabilitate with 112# / 115# Rail (286 K Capable)

Rail Replacement	\$300,000
Tie Replacement	99,000
Ballast Replacement	<u>21,000</u>
Total/Mile	\$420,000
Miles of Rehabilitated Track Needed	10.45
Subtotal	\$4,389,000

Turnout Replacement (38)	1,540,000
At-Grade, Highway-Rail Crossing Replacement (24 public, 7 private)	521,000
Bridge Replacement	125,000
Miscellaneous Renewal	<u>30,000</u>
Subtotal	\$2,216,000

Estimated Cost of Rehabilitation = \$6,605,000

Note: Only rehabilitate main and yard tracks, switching lead and passing track.
Rounded to the nearest thousand.

Source: RLBA estimates.

Table Three

Summary Physical Property and Maintenance Cost Estimates
All SAW Scenario

Track:	
Total Track Miles	25.36
Turnouts (Number):	
Total Turnouts (Main and Side)	91
Crossings (Number):	
Total Public (30)/Private (36) Crossings	66
Bridges (Linear Feet):	
Total Bridge Footage	15
Total Annual Program Maintenance Cost	\$214,500
Total Annual Routine Maintenance Cost	<u>183,700</u>
Total Annual Line Maintenance Cost	\$398,200
Total Annual Cost Per Route-Mile (\$398,200 / 25.36 Miles)	\$15,702

Source: RLBA estimates.

Table Four

Annual Program Maintenance of Way Costs All SAW Scenario

Cross Ties

2,880 ties/mile /	40 years/tie=	72 ties/mile	
72 ties/mile x	\$60 cost/tie x	25.36 miles=	\$109,600

Surface and Line

\$7,000 per mile /	8 year cycle =	\$875 per mile/year	
\$875 per mile / year x		25.36 miles =	\$22,200

Rail

25.36 miles /	150 years x	\$150,000 per mile =	\$25,400
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Road Crossings

66 crossings x	50 feet/crossing =	3,300 L.F.	
3,300 L.F. x	\$360 L.F. /	35 year life =	\$33,900

Turnouts, Timber and Surface

90 ST per Switch x	\$100 switch tie /	35 years =	\$257
91 Turnouts x	\$257 average per turnout =		<u>\$23,400</u>

Total Incremental Annual Program Cost

\$ 214,500

Note: Amount rounding may occur.

Source: RLBA estimates.

Table Five

Annual Routine Maintenance of Way Costs All SAW Scenario

Inspection and Minor Repair

One person (8 hours/day x 26 days/month x 12 months/year) = 2,496 hours/year
 Contractor Wages (\$30 - \$40/hour) average = \$35 per hour
 2,496 hours/year x \$35 equals \$87,400 per year

Additional Maintenance Assistance

One person (8 hours/day x 15 days/month x 12 months/year) = 1,440 hours/year
 Contractor Wages (\$30 - \$40/hour) average = \$35 per hour
 1,440 hours/year x \$35 equals \$50,400 per year

Total Labor Cost

\$87,400 plus \$50,400 equals \$137,800 \$137,800

Material Cost

Annual material cost will approximate one-third annual labor cost = \$45,900

Total Annual Routine Maintenance of Way Costs

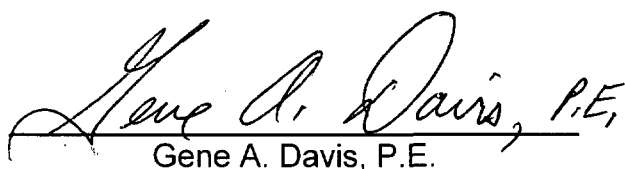
\$137,800 plus \$45,900 equals \$183,700

Note: Amount rounding may occur.

Source: RLBA estimates.

Verification

I, Gene A. Davis, P.E., verify under penalty of perjury that I am the same Gene A. Davis, P.E. whose Statement of Qualifications appears in my initial Verified Statement's Exhibit A of PYCO Industries, Inc. Feeder Line Application STB Finance Docket No. 34890 in this proceeding; that I know the contents thereof; and that the same are true and correct. Further, I certify that I am qualified and authorized to file this statement.


Gene A. Davis, P.E.

Subscribed and sworn to before this 27th day of September, 2006.

Notary Public

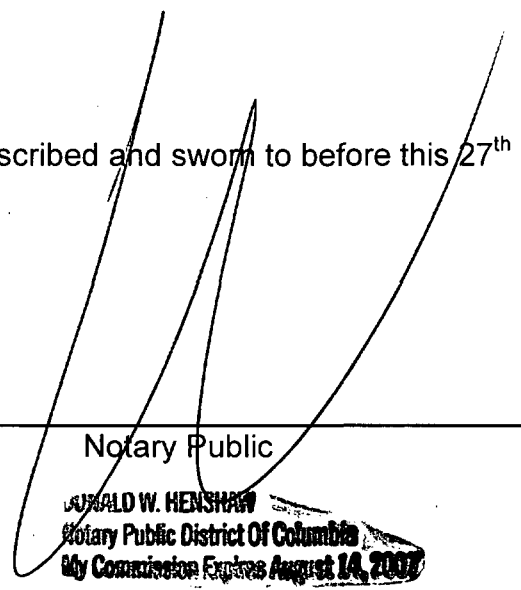
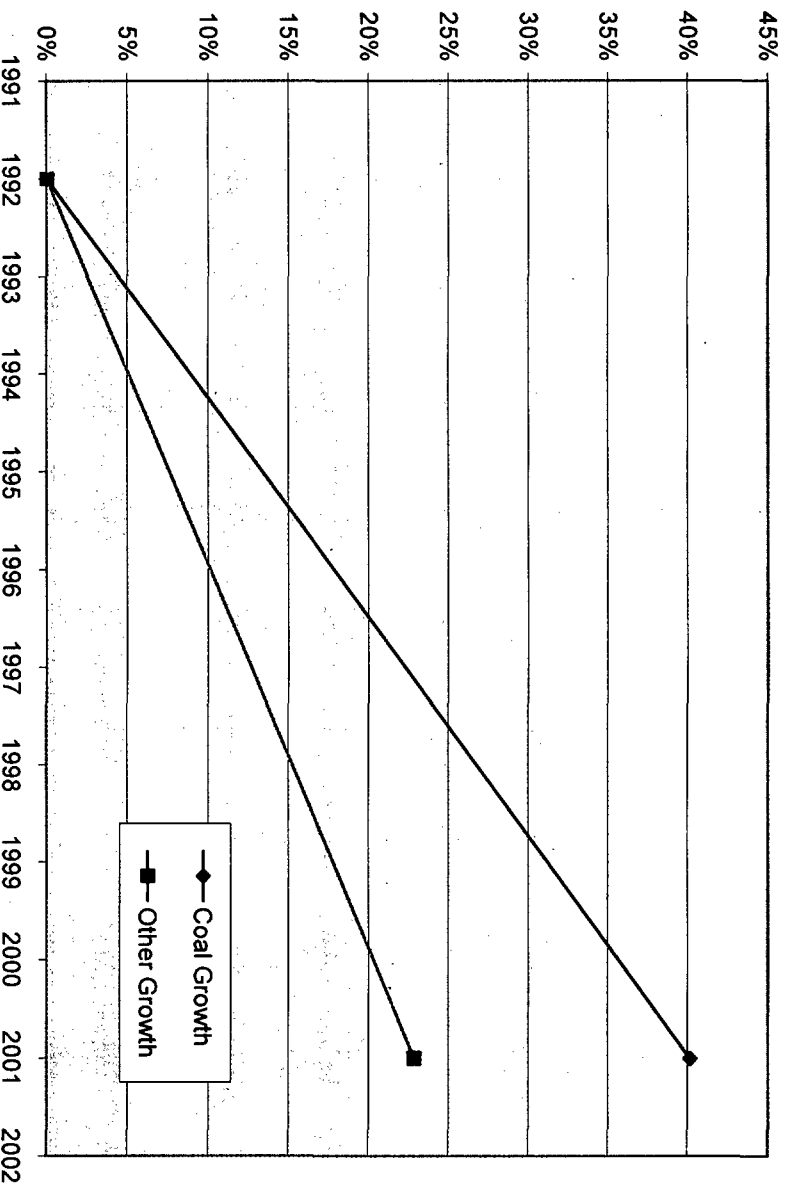

RONALD W. HENSHAW
Notary Public District Of Columbia
My Commission Expires August 14, 2007

Figure One

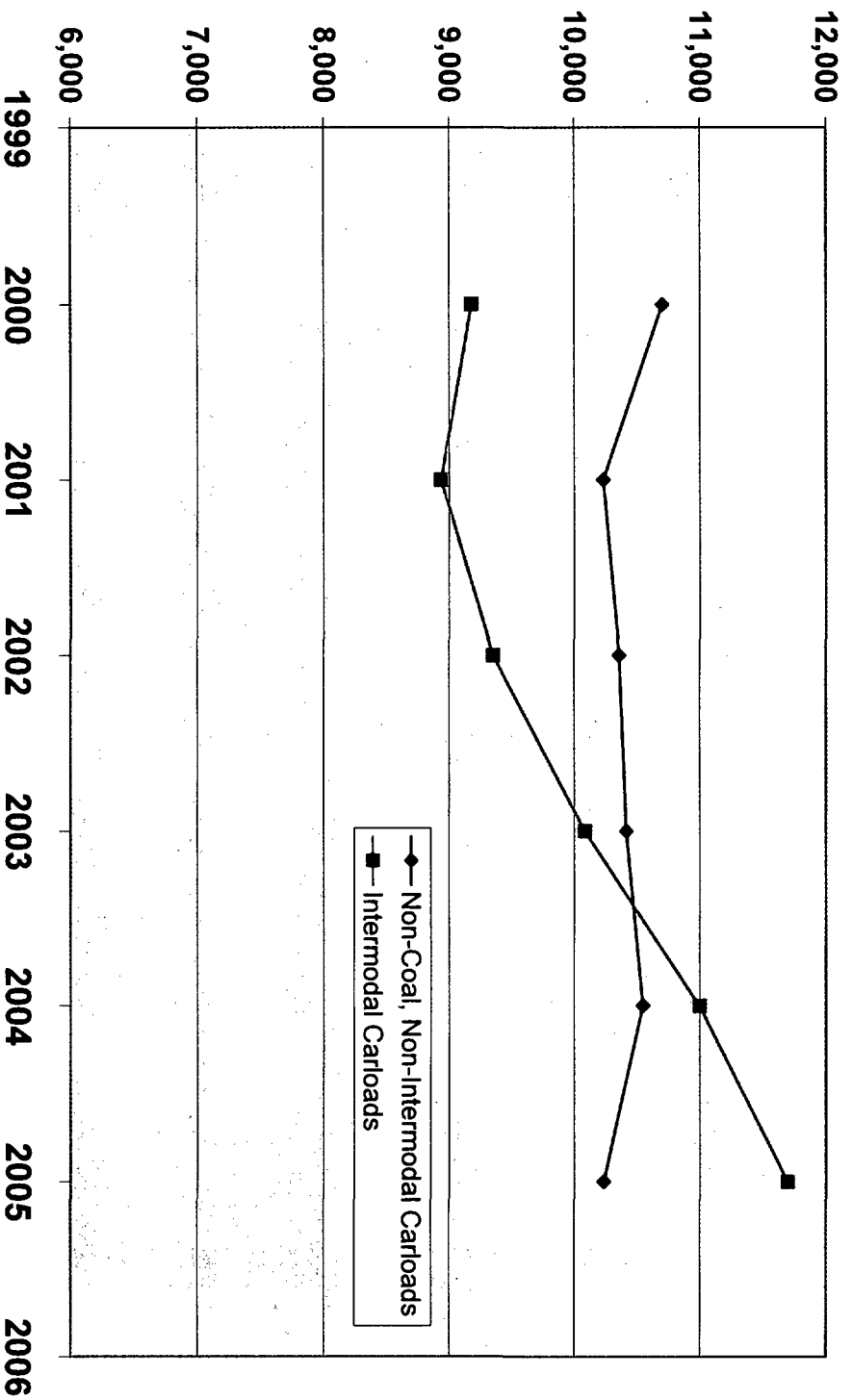
Growth in Coal Ton-miles vs. Other Ton-miles (Other Includes Intermodal)



Sources: Coalition for Affordable and Reliable Energy; RLBA.

Figure Two

Intermodal and Non-Coal, Non-Intermodal Carloads



Sources: Association of American Railroads Weekly Railroad Traffic Reports; RLBA.