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ORIGINAL

March 28, 2002

VIA HAND DELIVERY - RETURN COPY

Hon. Vernon A. Williams
Secretary
Surface Transportation Board
1925 K Street, NW (7th fl.)
Washington, DC 20423-0001

Dear Secretary Williams:

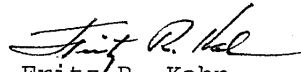
Enclosed for filing in each of STB Docket No. AB-573X,
Trinidad Railway, Inc.--Abandonment Exemption--In Las Animas
County, CO, and Finance Docket No. 33956, Kern Valley Railroad
Company--Acquisition and Operation Exemption--Trinidad Railway,
Inc., are the original and ten copies of the Reply of Kern Valley
Railroad Company.

Additional copies of this letter and of the Reply are
enclosed for you to stamp to acknowledge your receipt of them and
to return to me via messenger.

By copy of this letter, service is being effected in
accordance with the Certificate of Service.

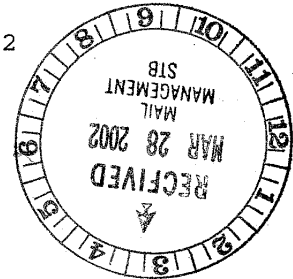
If you have any question concerning the foregoing which you
believe I may be able to answer or if I otherwise can be of
assistance, please let me know.

Sincerely yours,


Fritz R. Kahn

enc.

cc: Stephen L. Day, Esq.
Charles H. Montange, Esq.
John D. Heffner, Esq.
Michael J. Van Wagenen, Esq.



205081

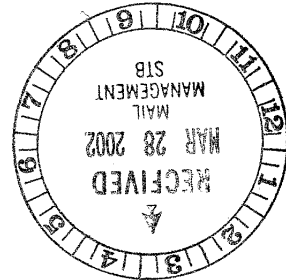
BEFORE THE
SURFACE TRANSPORTATION BOARD
WASHINGTON, D.C.

ORIGINAL

205081

STB Docket No. AB-573X ✓

TRINIDAD RAILWAY, INC
--ABANDONMENT EXEMPTION--
IN LAS ANIMAS COUNTY, CO



STB Finance Docket No. ~~33956~~

KERN VALLEY RAILROAD COMPANY
--ACQUISITION AND OPERATION EXEMPTION--
TRINIDAD RAILWAY, INC.

REPLY
OF
KERN VALLEY RAILROAD COMPANY

Fritz R. Kahn
Fritz R. Kahn, P.C.
1920 N Street, NW (8th fl.)
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Attorney for

KERN VALLEY RAILROAD COMPANY

Due and dated: March 28, 2002

BEFORE THE
SURFACE TRANSPORTATION BOARD
WASHINGTON, D.C.

STB Docket No. AB-573X

TRINIDAD RAILWAY, INC
--ABANDONMENT EXEMPTION--
IN LAS ANIMAS COUNTY, CO

ENTERED
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STB Finance Docket No. 33956

KERN VALLEY RAILROAD COMPANY
--ACQUISITION AND OPERATION EXEMPTION--
TRINIDAD RAILWAY, INC.

REPLY
OF
KERN VALLEY RAILROAD COMPANY

Kern Valley Railroad Company ("KVR"), pursuant to the Decision of the Board, Secretary Williams, served February 28, 2002, replies to the Request on Behalf of Rail Ventures, Inc., to Establish Terms and Conditions of Sale, filed March 16, 2002 ("Request"), as follows:

I.

INTRODUCTION

Let there be no mistake about it. The railroad line in question, extending between Milepost 2.0 at Jansen, CO, west of Trinidad, CO, to the end of the line at the former New Elk Mine at Milepost 30.00, east of Stonewall, CO, should have been

allowed to be abandoned as scheduled, on October 21, 2000,¹ as far as KVR is concerned. It was Rail Ventures, Inc. ("RVI"), and the acceptance of its offer of financial assistance ("OFA") by the Decision of the Board, Director Konschnik, served December 8, 2000, which stayed the effectiveness the abandonment authorization and kept the line an active line of railroad. Indeed, the Decision not only allowed KVR² to resume operations on the line; it imposed a duty upon KVR to render service on the line in response to a reasonable request.³

When it filed its OFA, RVI assumed the risk that circumstances would change before the Board, upon the request of either party, were to set the price and terms for RVI's purchase of the line and that it might need to pay more for the line than the \$2.5 million which RVI had indicated in its OFA it was prepared to pay as the line's net liquidation value ("NLV"). If, for example, the price of relay rail were to have increased in the meantime, there would be no question that the line's NLV would be higher, and RVI would be required to pay a greater amount at the time of its acquisition of the line than it had anticipated paying. In fact, the President on March 7, 2002, imposed sweeping tariffs on imported steel, thereby causing a

¹ See, Notice of Exemption, served September 21, 2000, 65 Fed. Reg. 57329-40, September 21, 2000.

² KVR bought the line, among other properties of Trinidad Railway, Inc., pursuant to the Notice of Exemption, served November 21, 2000, 65 Fed. Reg. 69991-92, November 21, 2000.

³ 49 U.S.C. 11101(a).

spike in the price of domestic steel. It is the conditions as they exist at the time the Board sets the price for the line that govern its valuation of the properties and not retroactively those which may have obtained at the "time of the proposed abandonment," as RVI argues at page 10 of its Request. KVR is entitled to be paid the fair market value of its properties as of the time when, pursuant to the Decision of the Board, KVR is compelled to convey them to RVI.⁴

At page 9 of its Request, RVI implies that KVR abused the Board's processes in these proceedings for the purpose of frustrating RVI's efforts to acquire the line pursuant to its OFA. RVI, however, at no time asked the Board to strike or reject a KVR pleading, or any part thereof, as having been filed improperly, and, although the Board was empowered to strike or reject a KVR pleading on its own initiative,⁵ the Board declined to do so but, rather, addressed each of KVR's pleadings on its merits. That KVR exhausted the administrative remedies provided for by the agency does not rise to the level of abusing the Board's processes; KVR would have acted irresponsibly if it had not done everything permissible under the Board's rules and regulations to protect its legitimate interests and those of its owners as KVR perceived them to be.

What has happened in the interim, as KVR heretofore has

⁴ See, First English Evangelical Lutheran Church v. County of Los Angeles, 482 U.S. 304, 320 (1987); United States v. Reynolds, 397 U.S. 14, 16 (1970).

⁵ 49 C.F.R. 1104.8 & 1104.10.

sought to explain to the Board,⁶ is that, beginning October 29, 2001, KVR began hauling coal over the southern Colorado line from a loading site near the mine of Lorencito Coal Company, LLC ("Lorencito"), to the tipple of Picketwire Processing Company at the former New Elk Mine, and, on December 1, 2001, moved the first of the unit-trainloads of coal from the tipple to Jansen, where the trains are turned over to The Burlington Northern and Santa Fe Railway Company for movement beyond. A unit-trainload of coal has been transported by KVR over the line every eight or ten days since then. The Board at no time gave any indication that KVR's operations on the line were improper or unlawful; the agency at no time directed or even suggested that KVR cease rendering service to the shipper on the line, Lorencito.

The transportation has been performed pursuant to a two-year rate agreement between KVR and Lorencito, subject to an evergreen clause. As Mr. David J. Shuman, Managing Director of R. L. Banks & Associates, Inc., notes in his Verified Statement, appended as Attachment B, Lorencito's 17,862-acre leasehold is estimated to contain approximately 102 million tons of coal reserves, of which 17 million tons are capable of being surface-mined and 85 million tons are underground-mine reserves. Independently of Lorencito's estimates of the market for its coal, Mr. Shuman projects that Lorencito will produce an average of 976,000 tons of coal annually over the next five years and an average of 1.1 million

⁶ See, KVR's Appeal, filed January 22, 2002; KVR's Petition for Reconsideration, filed December 28, 2001.

tons annually over the next ten years. In other words, what had been a defunct line of railroad as recently as late 2000 has become an active one, profitably operated by KVR.

At page 10 of its Request, RVI sought to undermine the reliability of the coal traffic projections for the railroad line in question by referring to two newspaper articles, copies of which were attached as Exhibits D & E to its Request, which reported the bankruptcy of AEI Resources Holding, Inc. That is a wholly unrelated company, and the stories erroneously speculated about the effect the bankruptcy might have upon the operations of Lorencito, which is owned by A. P. Maxwell Development Company, LLC.⁷ There is no reason to believe that Lorencito will not continue its mining operations or that it will not realize the volume of coal production which Mr. Shuman projected in his Verified Statement.

II.

THE LINE HAS GOING-CONCERN VALUE.

The applicable statutory standard for the Board's determination of the terms and conditions for the sale of a railroad line pursuant to the OFA process is set forth at 49 U.S.C. 10904(f)(1)(B), as follows:

Whenever the Board is requested to establish the conditions and amount of compensation under this section--

For proposed sales, the Board shall determine the price and other terms of sale, except that in no case

⁷ The error in the meantime has been acknowledged in a letter to the Board from RVI's counsel, dated March 25, 2002.

shall the Board set a price which is below the fair market value of the line (including, unless otherwise mutually agreed, all facilities on the line or portion necessary to provide effective transportation services).

The term "fair market value" is not defined elsewhere in that section of that statute. However, in what even RVI acknowledges to be the bellwether decision,⁸ Chicago and North Western Trans. Co.--Abandonment, 363 I.C.C. 956, 958 n.1 (1981), aff'd, Chicago and North Western Transp. Co. v. United States, 678 F.2d 665 (7th Cir. 1982), the Interstate Commerce Commission ("ICC") explained what the term "fair market value" as used in that section of the statute meant, stating:

We note that the standard imposed in this proceeding conforms to the valuation criteria imposed in a comparable forced sale provision added by section 401 of the Staggers Act, the feeder line development program (49 U.S.C. 10910 [now 10907]). This section allows a financially responsible party to require a railroad to sell certain rail lines where the transportation service provided over the line is inadequate. It provides that the purchase price cannot be set at less than the constitutional minimum value. The constitutional minimum value is presumed to be the greater of net liquidation value or the going concern value of the line. Since the feeder line development program is applicable to both profitable and nonprofitable lines, it is appropriate to consider both valuations. Under this statutory scheme, a profitable line could be valued either the going concern value or the net liquidation value. An unprofitable line, however, would always be valued at its net liquidation value. Since the provisions of 49 U.S.C. 10905 [now 10904] generally affect only those lines which impose a burden on interstate commerce and hence have been found not economically viable, it is appropriate to consider only the net liquidation value of the line [underscoring added for emphasis].

In that proceeding, the C&NW had maintained that the line in

⁸ See, RVI's Request, at page 6.

question imposed an economic burden upon the railroad, as it had consistently lost money in operating the line. Of course, that is the normal situation when a line is proposed for abandonment and an OFA is made. Therefore, a request for the agency to set the price and other terms for the sale of the railroad line under the OFA process almost invariably involves a determination of the line's NLV.

The ICC, however, always allowed for the possibility that an OFA would be made for a railroad line being operated profitably and, hence, would need to be determined to have a going-concern value. Thus, in Docket No. AB-32 (Sub-No. 42X), Boston and Maine Corporation and Springfield Terminal Railway Company--Abandonment and Discontinuance Exemption--In Berkshire County, MA, served November 19, 1990, the ICC held:

Proceedings to set conditions and compensation are governed by the provisions of 49 U.S.C. 10905(d)-(f). Under section 10905(f)(1)(C), the Commission may not set a price that is below the fair market value of the line. In Chicago North Western Transp. Co.--Abandonment, 363 I.C.C. 956 (1981), aff'd, 678 F.2d 665 (7th Cir. 1982), the Commission determined that, in the absence of a higher going concern value for continued rail use, the proper valuation standard in proceedings under section 10905 is the NLV of the rail properties [footnote omitted].

Accord, Docket No. AB-225 (Sub-No. 2X), Portland Traction Company--Abandonment Exemption--In Multnomah and Clackamas Counties, OR, served January 10, 1990; Docket No. AB-1 (Sub-No. 217), Chicago and North Western Transportation Company--Abandonment--Between Steamboat Rock and Hampton in Hardin and Franklin Counties, IN, served May 26, 1989.

Similarly, the Board consistently has adhered to the same standard. Thus, in STB Docket No. AB-33 (Sub-No. 119X), Union Pacific Railroad Company--Abandonment Exemption--In Rock, Green and Dane Counties, WI, served November 2, 1998, the Board said:

Proceedings to set conditions and compensation are governed by the provisions of 49 U.S.C. 10904(d)-(f). Under section 10904(f)(1)(B), we may not set a price that is below the fair market value of the Line. In Chicago and North Western Transp. Co.--Abandonment, 363 I.C.C. 956, 958 (1981) (Lake Geneva Line), aff'd sub nom, Chicago and North Western Transp. Co. V. U.S., 678 F.2d 665 (7th Cir. 1982), it was determined that, in the absence of a higher going concern value for continued rail use, the proper valuation standard in proceedings for offers to purchase under section 10904 is the net liquidation value (NLV) of the rail properties for their highest and best nonrail use.

Accord, STB Docket No. AB-492 (Sub-No. 2X), Fillmore Western Railway Company--Abandonment Exemption--In Fillmore County, NE, served October 31, 2001; STB Docket No. AB-581X, 1411 Corporation--Abandonment Exemption--In Lancaster County, PA, served October 18, 2001; STB Docket No. AB-477 (Sub-No. 2X), Owensville Terminal Company, Inc.--Abandonment Exemption--In Gibson and Posey Counties, IN, served January 16, 1998; STB Docket No. AB-441 (Sub-No. 2X), SWKR Operating Co.--Abandonment Exemption--In Cochise County, AZ, served November 12, 1997; Docket No. AB-290 (Sub- No. 168X), Norfolk and Western Railway Company--Abandonment Exemption--Between Kokomo and Rochester in Howard, Miami, and Fulton Counties, IN, served September 26, 1996.

Indeed, the agency's case law has been codified, and, although RVI in its Request tries to escape its unambiguous terms

by scarcely mentioning the regulation, 49 C.F.R. 1152.27(h) (6) provides, as follows:

If requested, the Board will determine the price and other terms of sale. The Board will not set a price below the fair market value of the line (including, unless otherwise agreed upon by the parties, all facilities on the line or portion necessary to provide effective transportation services). Fair market value equals constitutional minimum value which is the greater of the net liquidation value of the line or the going concern value of the line. The constitutional minimum value is computed without regard to labor protection costs.

Since the southern Colorado railroad line now is being operated profitably by KVR, the Board in determining its fair market value must assign the higher of the line's NLV or its going-concern value. As we shall demonstrate, KVR's going-concern value exceeds its NLV, and, therefore, for the Board to order that KVR shall receive anything less than the line's going-concern value would be tantamount to an unconstitutional taking.⁹

In ordinary commercial practice, "going-concern value is what a willing buyer given all available information would have paid a willing seller."¹⁰ Applying that standard, Mr. Edward W. Landreth, P.E., of Landreth Engineering, LLC, of Albuquerque, NM, in his Verified Statement, appended as Attachment E, states that it is his opinion that "if offered for sale on the open market [KVR] would have an expected sales price in the range of

⁹ See, Kirby Forest Industries, Inc. v. United States, 467 U.S. 1, 9-10 (1984); United States v. 564.54 Acres of Land, etc., 441 U.S. 506, 510-11 (1979); Blanchette v. Connecticut General Insurance Corp., 419 U.S. 102, 126-27 (1974).

¹⁰ Coastal Fuels of Puerto Rico v. Caribbean Petroleum, 173 F.3d 18, 25, n. 4 (1st cir. 1999).

\$9,000,000.00 to \$17,000,000.00. Applying, the more conservative approach utilized by the Board in Finance Docket No. 32479, Caddo Antoine and Little Missouri Railroad Company--Feeder Line Acquisition--Arkansas Midland Railroad Company Line Between Gurdon and Birds Mill, AR, served May 5, 2000, Mr. Timothy J. Gannon, Director, Financial Analysis, of R. L. Banks Associates, Inc., in his Verified Statement, appended as Attachment D, expresses his opinion that the going-concern value of KVR is \$5,354,267. KVR is prepared to accept Mr. Gannon's calculation of the going-concern value of KVR and, accordingly, asks the Board to set \$5,354,267 as the price which RVI must pay for the line if it were to consummate the OFA process.

III.

RVI'S NLV ANALYSES ARE FATALLY FLAWED.

As already noted, RVI, in its Request, virtually ignores the Board's regulation on valuing railroad lines under the OFA process and simply asserts that going-concern value cannot be used by the Board in setting the price and other terms for RVI's purchase of the southern Colorado railroad line. Instead, RVI maintains that the proper measure of the line's value is the NLV of its tracks, ties and other track materials.¹¹ In support of its claim that the line has a NLV of \$2,251,022.00, RVI presents the analyses of three persons: Mr. Vern Van de Loo, President of Mountain States Contracting, Glendale, AZ, attached as Exhibit L

¹¹ KVR does not claim assemblage value for the line or value for any of the realty underlying the line, as RVI feared KVR might, at pages 10-13 of its Request.

to RVI's Request, Mr. Gabino Lara, President of Northwestern Construction, Inc., Erle, CO, Exhibit M, and Mr. Kevin S. Smith, Director of Rail Services of David J. Joseph Company, Cincinnati, OH, Exhibit N.

None identifies himself as a professional engineer or otherwise portrays himself as qualified to appraise the line. None states that his company is one which is in the business of purchasing, rehabilitating and reselling rails, ties and other track materials and, hence, has any knowledge of the bulk purchase or retail sales prices of rails, ties and other track materials. None has inspected the southern Colorado railroad line¹² or has first-hand knowledge of the age, weight, length or reusability of the rail, condition of the ties or the state of the other track materials. None has submitted his appraisal under oath or pursuant to verification under penalty of perjury.

In each instance, the appraiser was provided by RVI with a copy of the appraisal of the railroad line done for KVR in November 2000 by Mr. Jim Okroy, Vice President of Operations & Senior Appraiser of A&K Railroad Materials, Inc.,¹³ a copy of which was attached as Exhibit I to RVI's Request. Each of the

¹² RVI's inspection of the railroad line on February 26, 2002, as authorized by Decision of the Board, did not include Mr. Van de Loo, Mr. Lara or Mr. Smith. Rather, it consisted of a three-hour high-rail trip on the line by Mr. John Reed, President of RVI, accompanied by two others, neither of them professional appraisers of railroad properties.

¹³ KVR acknowledges that the inclusion of \$458,000 for Right of Way and Improvements was in error and that, therefore, the NLV should have been \$3,683,214.

appraisers evidently accepted Mr. Okroy's description of the properties; certainly none of them contested it. In essence, what Mr. Van de Loo did was to reduce the unit prices to arrive at a lower NLV for the railroad line; however, he offers no explanation of why Mr. Okroy's unit prices were not correct and why the lower unit prices which he would substitute should apply.¹⁴ In other words, Mr. Okroy had said that for the preponderance of the railroad line, some 29.38 miles, there were 4,596 net tons of relay rail, priced at \$470 a net ton, 249 tons of relay rail, priced at \$300 a net ton, 792 tons of reroll rail, priced at \$95 a net ton and 249 net tons of scrap, priced at \$65 a net ton. Mr. Van de Loo did not challenge the tonnages as calculated by Mr. Okroy but simply used unit prices reduced to \$375, \$250, \$75 and \$50, respectively, without any effort on his part to support the lower amounts.¹⁵ Mr. Lara doesn't even bother to attempt a recalculation of the track materials but simply opines that the fair net liquidation of the railroad line is between \$2.2 million and \$2.5 million. Finally, Mr. Smith lumps all of the rail together into a single figure, \$1,600,000, without any breakdown whatever of how he arrived at that

¹⁴ In his letter to the Board, dated March 20, 2002, a copy of which is appended as Attachment F, Mr. Van de Loo explains that he had no idea that his letter to Mr. Reed would be used as an appraisal of the NLV of the southern Colorado railroad line. The amounts were what he conservatively might pay for the materials as described by Mr. Reed but never inspected by him.

¹⁵ American Metals Market reported that, as of March 12, 2002, reroll rail was selling in Chicago at \$113 a ton, cut-up scrap rail at \$156 a ton and other track materials at \$97 a ton.

valuation. He does that, as well, for the ties and other track materials.

In short, the three appraisals offered by RVI are worthless; they simply do not withstand analysis.

In sharp contrast, notwithstanding that it firmly believes that the price of the railroad line should be set by the Board at the line's going-concern value, KVR asked R.L. Banks & Associates, Inc., to prepare a NLV analysis, and attached hereto is the Verified Statement of Mr. Kenneth Cotton, P.E., of Engineering Services, Inc., Harrodsburg, KY, an extraordinarily well qualified and highly seasoned appraiser of railroad lines, who worked for CSX Transportation and its predecessors for most of the years between 1948 and 1990. Mr. Cotton inspected the southern Colorado railroad line by high rail and on foot on February 14-15, 2002. Following the methodology of the STB's decisions,¹⁶ Mr. Cotton concludes that the NLV of KVR's track assets comes to \$3,830,696.

Mr. Cotton explains the relatively minor discrepancy between his calculation of \$3,830,696 as the NLV of KVR's track assets and that of Mr. Okroy of \$3,683,214 by noting that he included some siding tracks that Mr. Okroy evidently overlooked and that there is more Class 1 and 2 rail available than was indicated in

¹⁶ See, STB Docket No. AB-492 (Sub-No. 2X), Fillmore Western Railway Company--Abandonment Exemption--In Fillmore County, NE, served October 31, 2001; Docket No. AB-290 (Sub-No. 168X), Norfolk and Western Railway Company--Abandonment Exemption--Between Kokomo and Rochester in Howard, Miami and Fulton Counties, IN, served September 26, 1996.

Mr. Okroy's appraisal.

IV.

CONCLUSION

As astonishing as it may seem to be, RVI, at page 10 of its Request, acknowledges, "Offeror's plan (and dream) has always been, and to this day remains, to operate a passenger operation [on the line] taking full advantage of the physical beauty of the surrounding property." The OFA process, however, was not intended to furnish the facilities for operating excursion trains; rather, the OFA process was designed to enable shippers on a railroad line authorized for abandonment to continue to receive freight service. In these proceedings, circumstances have changed since the OFA process was begun. Operations currently are being performed on the line by KVR, and its shipper, Lorencito, is receiving adequate service in the railroad transportation of its coal. Nevertheless, the Board evidently is intent on having the OFA process concluded, by the Board's setting of the price and terms that RVI must pay to purchase the southern Colorado railroad line. That price can be no less than the going-concern value of KVR's properties or \$5,354,267.

WHEREFORE, Kern Valley Railroad Company asks that the price which Rail Ventures, Inc., would need to pay for the railroad line extending between Milepost 2.0 at Jansen and the end of the line at Milepost 30.00 at the former New Elk Mine, in Las Animas County, Colorado, be set at \$5,354,267.

Respectfully submitted,

KERN VALLEY RAILROAD COMPANY

By its attorney,



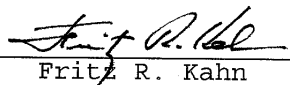
Fritz R. Kahn
Fritz R. Kahn, P.C.
1920 N Street, NW (8th fl.)
Washington, DC 20036-1601
Tel.: (202) 263-4152

Due and dated: March 28, 2002

CERTIFICATE OF SERVICE

I certify that I this day have served copies of the foregoing Reply upon counsel for each of the parties by mailing a copy by prepaid first-class mail, except counsel for Rail Ventures, Inc., was sent his copy by UPS NEXT DAY AIR.

Dated at Washington, DC, this 28th day of March 2002.


Fritz R. Kahn

ATTACHMENT A

BEFORE THE
SURFACE TRANSPORTATION BOARD
WASHINGTON, D.C.

STB Docket No. AB-573X

TRINIDAD RAILWAY, INC
--ABANDONMENT EXEMPTION--
IN LAS ANIMAS COUNTY, CO

STB Finance Docket No. 33956

KERN VALLEY RAILROAD COMPANY
--ACQUISITION AND OPERATION EXEMPTION--
TRINIDAD RAILWAY, INC.

VERIFIED STATEMENT
OF
ROBERT L. BANKS

My name is Robert L. Banks, and I am the Chief Executive of R. L. Banks & Associates, Inc. (RLBA), a firm of transportation economists and engineers, located at 1717 K Street, NW, Washington, DC 20036.

A graduate of Columbia College and a Fellow in Transportation at Yale, I subsequently spanned many diverse elements in the transportation industry, first, with the New York Central Railroad and, later, with the Civil Aeronautics Board and the Department of the Air Force. Since 1956, I have served as a transportation consultant, preparing detailed analytical studies involving carriers of all modes, on behalf of shippers, carriers, trade associations and various government entities, both in the

United States and in Canada. I have offered testimony in more than 75 proceedings before the Board and its predecessor, the Interstate Commerce Commission.

In these proceedings, RLBA was retained by Kern Valley Railroad Company (KVR) to prepare a going-concern value analysis and a net liquidation value analysis for the thirty-mile line of railroad extending between Milepost 2.0 at Jansen, to the end of the line at Milepost 30.00 near the former New Elk Mine, in Las Animas County, Colorado. KVR cooperated fully and provided RLBA with copies of all pertinent documents, including detailed maps of the line, KVR's rate agreement with the sole shipper on the line, Lorencito Coal Company, LLC (Lorencito), and its operating agreement with its contract operator Colorado Central Railway Company. Similarly, RLBA enjoyed the cooperation of Lorencito, which provided RLBA with data relating to its coal reserves, production capacity and sales projections.

The going-concern value analysis was done in house. I asked Mr. David J. Shuman, Managing Director of RLBA, to prepare the anticipated demand for Lorencito's coal. Mr. Shuman did not rely on the sales projections of Lorencito but analyzed them in the context of the market demand for coal over the next twenty years' time. He particularly took into account the high-BTU and low sulfur and low ash fusion characteristics of the coal that Lorencito mines and Lorencito's ability readily to respond to spot demands for such coal. Mr. Shuman's Verified Statement, concluding with his projection for the anticipated sale of

Lorencito coal, is attached.

I then asked Mr. Timothy J. Gannon, Director, Financial Analysis of RLBA, to calculate the present going-concern value of KVR. I invited his attention to the methodology which had been employed by the Board in Finance Docket No. 32479, Caddo Antoine and Little Missouri Railroad Company--Feeder Line Acquisition--Arkansas Midland Railroad Company Line Between Gurdon and Birds Mill, AR, served May 5, 2000, and he followed that approach. Since KVR has not had a full year of operations, however, Mr. Gannon had to arrive at the going-concern value using a base year. For reasons which he explains in his Verified Statement, which is attached, Mr. Gannon used KVR's projected operations for the year ending in 2005 as the base year and came up with a going-concern value for KVR of \$5.4 million.

To undertake the net liquidation value (NLV) analysis, RLBA engaged Mr. Kenneth Cotton, P.E., of Engineering Services, Inc., of Harrodsburg, KY, a highly qualified railroad engineer. Mr. Cotton inspected the entire southern Colorado railroad line on February 14 and 15, 2002. I invited Mr. Cotton's attention to the methodology employed by the Board in the proceedings in which it has been asked to set the price and terms for an acquisition pursuant to an offer of financial assistance for a railroad line authorized for abandonment, including STB Docket No. AB-492 (Sub-No. 2X), Fillmore Western Railway Company--Abandonment Exemption--In Fillmore County, NE, served October 31, 2001, and Docket No. AB-290 (Sub-No. 168X), Norfolk and Western Railway Company--

Abandonment Exemption--Between Kokomo and Rochester in Howard, Miami and Fulton Counties, IN, served September 26, 1996, and Mr. Cotten did so in preparing his estimate of KVR's NLV. He assigned no value to any of the realty, since KVR was unable to provide him with evidence that it held any of the rights-of-way in fee, and he assigned no value to the assemblage of the rights-of-way, since NLV needs to be calculated at the highest non-rail use of the assets. In his Verified Statement, which is attached, Mr. Cotton concludes that KVR has a NLV of \$3.8 million. This amount tends to support the NLV of \$3.7 prepared by A&K Railroad Materials in November 2000.

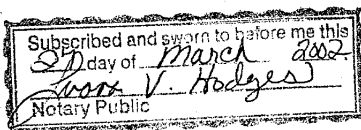
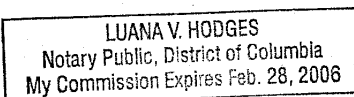
I have been provided with copies of the NLV analyses done for Rail Ventures, Inc., by Mr. Vern Van de Loo of Mountain States Contracting, Glendale, AZ, Mr. Gabino Lara of Northwestern Railroad Construction, Inc. of Erle, CO, and Mr. Kevin S. Smith of David J. Joseph Company of Cincinnati, OH. I have run across none of them in the appraisal work that RLBA has done over the years, and their NLV analyses are not of the professional quality which RLBA has come to expect and, hence, not worthy of reliance by the Board.

VERIFICATION

I, Robert L. Banks, declare under penalty of perjury, under the laws of the United States of America, that I have read the foregoing Verified Statement and that its assertions are true and correct to the best of my knowledge, information and belief. I further declare that I am qualified and authorized to submit this verification on behalf of myself and R. L. Banks and Associates, Inc. I know that willful misstatements or omissions of material facts constitute Federal criminal violations punishable under 18 U.S.C. 1001 by imprisonment up to five years and fines up to \$10,000 for each offense. Additionally, these misstatements are punishable as perjury under 18 U.S.C. 1621, which provides for fines up to \$2,000 or imprisonment up to five years for each offense.

Dated at Washington, DC, this 27th of March 2002.

Robert L. Banks
Robert L. Banks



ATTACHMENT B

SURFACE TRANSPORTATION BOARD

STB Docket No. 573X

TRINIDAD RAILWAY, INC. – ABANDONMENT EXEMPTION --
IN LAS ANIMAS COUNTY, CO

STB Finance Docket No. 33956

KERN VALLEY RAILROAD COMPANY – ACQUISITION AND OPERATION
EXEMPTION – TRINIDAD RAILWAY, INC.

Verified Statement

Of

David J. Shuman

My name is David J. Shuman. I am Managing Director at the firm of R.L. Banks & Associates, Inc., ("RLBA") transportation economists and engineers, located at 1717 K Street, N.W., Washington, DC.¹ On behalf of Kern Valley Railroad Company ("KVR"), I have developed estimates of coal volumes likely to be produced over the next 20 years at the mine of Lorencito Coal Company, LLC, in Las Animas County, Colorado ("Lorencito Mine," "Lorencito Property," or "the Mine"). This statement comprises a synopsis of the process and results of my research:

¹ This statement is the fourth which I have submitted to the Board. Previous submissions, all co-authored with Robert L. Banks include STB Finance Docket 32760 (Sub. No. 10) *Joint Rebuttal Verified Statement of Robert L. Banks and David J. Shuman*, May 14, 1996; STB Finance Docket 32760, (Sub No 26) *Joint Verified Statement of Robert L. Banks and David J. Shuman*, July 8, 1998 and *Joint Rebuttal Verified Statement of Robert L. Banks and David J. Shuman*, October 15, 1998. I have also testified before the Board's predecessor agency, the Interstate Commerce Commission (ICC), on behalf of rail car lessors in Ex Parte 334, Boxcar Deregulation and at the request of the ICC in MC-128, which reexamined Federal financial and economic oversight of Motor Carriers.

- First, I outline the *reserves, current operations and markets* of the Lorencito Mine;
- Second, I discuss inherent elements of the relevant markets, principally those characterized by spot transactions, which create *forecast challenges* and limit the degree of precision and accuracy reasonably obtainable in projections of the nature undertaken;
- Third, I discuss the general, *macroeconomic trends and other market research factors* that I considered in making my forecast;
- Fourth, I detail three *microeconomic factors* on which I relied most in reaching my projections; and
- Fifth, I present my *coal production forecast* and discuss the mathematics employed in my methodology.

My qualifications to prepare such estimates appear at the rear of my statement.

Lorencito Mine Reserves, Current Operations and Markets

The 17,862-acre Lorencito Mine leasehold is currently estimated to contain approximately 102 million tons of coal reserves of which 17 million tons are expected to be surface-mined while underground-mine reserves are estimated at

85 million tons.²³ The surface-mined coal is virtually 100 percent recoverable. In contrast, only approximately 60 percent of underground reserves are recoverable, net of requirements to leave "pillars" and after losses from washing.

The Mine's productive capacity is approximately three to four million tons per year, or between 223 percent and 299 percent of the maximum yearly output in my projections.⁴ The actual amount produced, however, will depend on market conditions and other factors.

The destinations of the coal may vary substantially over time. At present, approximately half of the output is consigned to the Tennessee Valley Authority's ("TVA") Kingston Power Plant near Knoxville, Tennessee, which burns the coal to produce electricity. The first TVA-bound trainload departed on December 1, 2001. TVA has contracted to buy approximately 20,000 tons monthly over the next two years and is currently exploring the suitability of using Lorencito Mine coal in its

² As indicated in the recitals to an agreement entered into on November 1, 1995 between B.F. Hill, F.R. Hill Jr. and MGP Enterprises as lessors, and A.P. Maxwell Development Company, LLC, (the corporate parent of Lorencito Coal Company, LLC) as lessee, The Lorencito Property encompasses "approximately 17,861.84 acres."

³ Estimates provided telephonically by Erik Addington, February, 2002. As a result of continuing exploratory efforts and changing plans for exploitation of Lorencito Mine resources, estimated recoverable reserves have changed over time. As of 1999, for example, it was believed that the mine contained 25 million tons of recoverable surface coal and 40 million tons of recoverable subsurface coal.

⁴ As indicated infra, maximum projected output is 1.34 million tons per year. Maximum productive capacity is constrained in the short term by the capacity of its portable coal crushing unit, permitted by the Colorado Department of Public Health And Environment to process up to 2.35 million tons of coal per year (Permit No. 1PO0896, 2001).

other power plants. The balance of the Mine's coal has been sold either to brokers, ultimate destinations unknown to the Mine or sent to industrial concerns in Texas where it is being tested for its potential use in cement plants.

All of Mine's production today requires and, in the future is expected to require, double handling by the KVR:

- first in a shuttle movement from a truck-served site (trucks move the coal two miles from the current location of mining activity) to a coal processing plant on-line (the tipple is located in Weston, Colorado, and is owned by the Picketwire Processing Company) and
- second, after cleaning and crushing as required, by unit train to Jansen, Colorado for delivery to either Burlington Northern Santa Fe or UP.

Forecast Challenges

The level of confidence that can attach to any long-term forecast of Lorencito Mine production is subject to well-understood qualifications, pertaining to the instability of spot markets and the effect of scale on mine economics.

A significant portion of the Mine's production is expected to be sold on the spot market, which by its very nature is inherently dynamic and volatile.⁵ Larger coal mining operations are far less vulnerable to market shifts; production may be reduced or ramped up, but they continue to serve base demand under virtually all circumstances. Most coal from such operations is sold under high-volume, long-term contracts. Small mines are far more likely to be subject to the vagaries of spot market prices and, therefore, short-term shifts in demand for coal.⁶ A mine's reliance on the spot market generally means that purchased production will be highly erratic, depending largely on "hit rates" in attempted sales to brokers.

The recent start-up nature of the Lorencito Mine enterprise - production commenced only late in 2001 - makes it difficult to extrapolate any future trends. The Mine is off to a good start but how fast it ramps up production is subject to the

⁵ Recent levels of volatility in the spot coal market, while certainly not as extreme as that experienced in the ill-fated California experiment with electricity generation, have been substantial in both export and domestic markets. For example, according to *Coal Week International*, thermal coal FOB the West Coast were as low as \$27.00 per metric ton in the third quarter of 2000, as high as \$45.28 three quarters later, and as low as \$32.00 in the third quarter of 2001. Even the range between highest and lowest spot prices in a single week, January 21-25, 2002, varied as much as \$5.10 per metric ton. Changes in both spot prices and quantities sold vary even more dramatically from location to location. Federal Energy Regulatory Commission reports show that sales to Mountain States' utilities *increased* 65 percent from the first half of 2000 to the first half of 2001, with unit prices dropping by one half percent. Volumes sold in Ohio over the same period *declined* by 19.2 percent, with unit prices *increasing* by 27.7 percent.

exercise of discretion. Forecasting production volumes of newly-opened, relatively small operations is highly problematic. Strong coal prices are usually precedent to the decision to open such a mine, but actual economic viability may abruptly depart from expectations as a consequence of rapid and unexpected short-term changes in demand. Small, high-cost mines may thrive when prices are high but may be shuttered rapidly as demand declines.

Macroeconomic Trends and Other Market Research Factors

Production projections were developed after considering a broad array of information from several, highly disparate sources. These sources include, but are not limited to:

- market analyses, successive production planning documents and mining plans and projections prepared by Lorencito Mine principals;
- trends in high-BTU, coal production, metallurgical coal prices and exports of metallurgical coal from Colorado and other states,
- coal demand forecasts prepared by the U.S. Energy Information Administration;

⁶ Coal prices, of course, are highly influenced by movements in other energy markets, such as those for petroleum and natural gas. Virtually on a real-time basis, the thermal electricity generation industry is capable of adjusting plant capacity utilization as between coal or gas-fired in response to changes in fuel costs; spot prices instantly adjust to the adjustments. Despite the outward, "physical" appearance of being self-contained, insular and predictable, the economics of the domestic coal production, transportation and consumption chain is anything but.

- statements made by Lorencito Mine project principals and other interested parties in the course of the extensive mine permitting process conducted by the State of Colorado and
- discussions with Lorencito Mine principals about their current level of confidence in their historical production planning estimates, informed by their experience of opening, and now operating, the subject Mine. I have noted and taken into consideration in my forecast, changes in assumptions, factors delaying the implementation of mining operations, and the consequences of special requirements imposed on the Mine by the permitting agency.

Combining the above factors, I conclude that there will be significant demand for coal, including those with qualities similar to that produced at Lorencito, at least through the time horizon of my forecast (20 years) and likely decades beyond.

Microeconomic Factors

Having considered and weighed both macroeconomic and other market research factors, I have concluded that three elements should be accorded the greatest weight in trying to forecast Lorencito Mine production:

First, and foremost, my point of departure in developing estimates are the projections advanced by or on behalf of the Lorencito Mine project, controlled by the Addington family, who have been active coal producers since well before the railroad industry connected to the Powder River Basin mines and own other, large

coal producing mines. The family's collective experience in the industry, and that of their primary sales agent, is a significant factor in judging the likelihood that the Mine will produce economically viable quantities. It is reasonable to assume that their acquisition of and investment in the Mine and now, their commencement of operations, has been based on experienced, rational analyses of the Mine's commercial feasibility. While even well-planned and operated enterprises can fail, the Lorencito Coal Company's corporate planning documents represent the best indication of the mine's likely performance. Substituting one's own judgement for that of at-risk investors, especially knowledgeable ones, should be made only with great care. The investors and management team are the people who will suffer if projections prove too optimistic; they're the ones with a vested interest in the solidity of their own forecasts.⁷

Second, the strategy adopted by Lorencito Mine's owner and sales force, i.e. to focus on the spot market, plays directly to the strengths of the Mine. To meet the requirements of Phase I and II of the Clean Air Act, Midwest utilities currently using high-BTU, high-sulfur fuel will have to change their fuel mix. Lorencito is one of a

⁷ The Mine owner's expectations have hardly been made in a vacuum. The Energy Information Administration's *Annual Energy Outlook 2002* projects a 2.5 percent per year increase in U.S. low-sulfur coal production for the 20 years 2000 to 2020. Western coal, a classification which largely overlaps the low-sulfur category, is expected to increase by 2.3 percent annually over the same period. Private forecasting agencies have projected similar growth on the consumption side; with Fitch Ratings projecting a 65 million ton increase in consumption by power plants in the 15 years 2000 and 2015; GRI & Hill & Associates expect a 143 million ton growth in consumption by electric generating plants and industrial users in the 17 years to 2015. The Lorencito Mine, of course, may underperform, equal or exceed these broad-based measures. My projections of mine output is generally more conservative than the national forecasts cited.

very few mines in the country that yield high BTU, low sulfur and low ash fusion coal, compatible with the wet bottom or cyclone boilers commonly used in the Midwest and East. (Conversely, Lorencito's high-volatility coal is generally not compatible, other than as a blending component, with western boilers adapted to low-BTU Powder River Basin coal.) So, Lorencito will be in a favorable, niche position in a growing sub-component of the coal market. Lorencito will not be among of hundreds of atomistic companies forced to be price takers competing in a flat or declining commodity market.

Third, the TVA contract negotiated by Lorencito is of great significance. Lorencito's 20,000 ton per month contract represents just five percent of the 140 coal carloads per day consumed by TVA's Kingston Plant. Coal powers sixty percent of the electricity generated at TVA's 48 plants. TVA has recently committed to a billion dollar investment to enhance the environmental compliance technology of its coal handling/burning operations so it would appear likely that TVA will be using huge amounts of coal for a very long time. Also, TVA recently developed an extremely sophisticated, real-time, spot-purchase system in connection with its diesel and gas-fired plants. Expanding the system to also cover coal is a natural next step and Lorencito is a natural supplier.

Coal Production Forecast

Table 1 on the next page displays my best judgement of projected Lorencito Mine coal production. My projected tonnages are built on those advanced by the

Table 1

Lorencito Mine Projected Coal Production			
12 Months Ending In	Tons (000s)		
	Surface	Under-ground	Total
2002	490	150	640
2003	650	250	900
2004	690	310	1,000
2005	760	380	1,140
2006	820	380	1,200
2007	830	460	1,290
2008	840	500	1,340
2009	660	530	1,190
2010	660	530	1,190
2011	640	550	1,190
2012	580	570	1,150
2013	440	500	940
2014	380	440	820
2015	350	440	790
2016	350	440	790
2017	320	340	660
2018	320	340	660
2019	320	340	660
2020	320	340	660
2021	320	340	660
20 Year Total	10,740	8,130	18,870

Source: RLBA estimates

Lorencito Mine Company but are "expected value" estimates which reflect the assignment of probabilities to possible occurrences. For example, the Mine may prove to be economically unsustainable after an initial five year period during which the emphasis will be on surface mining of steam coal. Conversely, a large demand may develop for the mine's high-volatility coal for either blending with low-volatility coal in generating plants or for metallurgical purposes, either domestic or foreign. I calculated expected values separately with respect to: 1) surface-mined and 2) underground coal production, given the different risk and upside profiles I believed appropriate.

My expected value forecast modifies the company's projections in three major respects:

- first, I have explicitly assigned a probability, 20 percent, to the Mine not being able to sustain profitably its planned, ramped-up operations and reduced expected output accordingly;
- second, I assigned a similar probability to more optimistic aspects of the company's projections, specifically, the ability to sell substantial quantities of metallurgical coal obtained from underground mining. (The property is capable of being mined in multiple fashions. Currently, Lorencito intends to mine both the surface and underground. Coal characteristics differ by specific location, with some suitable for metallurgical purposes, some for either thermal or metallurgy, and some thermal alone); and

- third, my estimates of metallurgical sales reflect solid, short-term expectations, rather than the much higher volumes capable of being produced through the introduction of discrete mining units.

The effect of the above modifications is that my projections are more conservative, generally substantially less, than those used by the Lorencito Mine Company in connection with the pre-implementation phases of the Mine, extracts of which are shown in Attachment A, and generally less than the volumes set forth in the most recent, publicly reported statements made by the Mine's owner, sales agent and outside counsel.

My qualifications for preparing these projections have been developed over 22 years as an economic consultant at RLBA and Booz, Allen & Hamilton, Inc., with one of my first assignments being the estimation of the costs of coal washeries in an ICC proceeding initiated by the Coal Exporters Association in 1983. Since then, I have worked on coal transportation contract negotiations for the Pittston Company, Central Power & Light and Otter Tail Power. I have examined coal demand and transportation cost estimates for existing and alternative modes on behalf of the Japan Coal Development Company, explored strategic options for the Kansas City Southern Railway in light of threats to its coal markets; performed several studies for the State of New South Wales involving international coal markets one hand and developmental prospects on the Hunter Valley Coal line; on behalf of the Government of New Zealand projected demand and explored competitive threats to

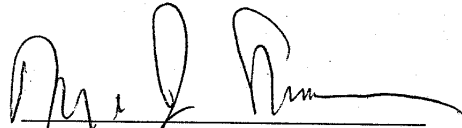
South Island coal production; headed a major transportation investment study of the former Soviet Union funded by the European Bank for Reconstruction and Development, a major issue of which was the decaying energy transport infrastructure. I have been an expert economic witness on behalf of several entities, including the U.S. Department of Justice, Trinity Railcar Company, and designated plaintiffs in a Washington Public Utilities Commission proceeding intended to revise the state's regulation of motor carriers. I am a member of the American Economic Association, have been a commercial arbitrator for the American Arbitration Association, and was certified as an ICC Practitioner in 1980. I received a J.D. from Boston University and an M.B.A. from the Wharton school. As a Wharton Public Policy Fellow, I was a railroad economist in the Office of Policy of the Federal Railroad Administration in the period just preceding the enactment of the Staggers Act.

VERIFICATION

I, David J. Shuman, declare under penalty of perjury, under the laws of the United States of America, that I have read the foregoing Verified Statement and that its assertions are true and correct to the best of my knowledge, information and belief.

I further declare that I am qualified and authorized to submit this verification on behalf of myself and R. L. Banks and Associates, Inc. I know that willful misstatements or omissions of material facts constitute Federal criminal violations punishable under 18 U.S.C. 1001 by imprisonment up to five years and fines up to \$10,000 for each offense. Additionally, these misstatements are punishable as perjury under 18 U.S.C. 1621, which provides for fines up to \$2,000 or imprisonment up to five years for each offense.

Dated at Washington, DC, this 26 day of March 2002.



David J. Shuman

Attachment A

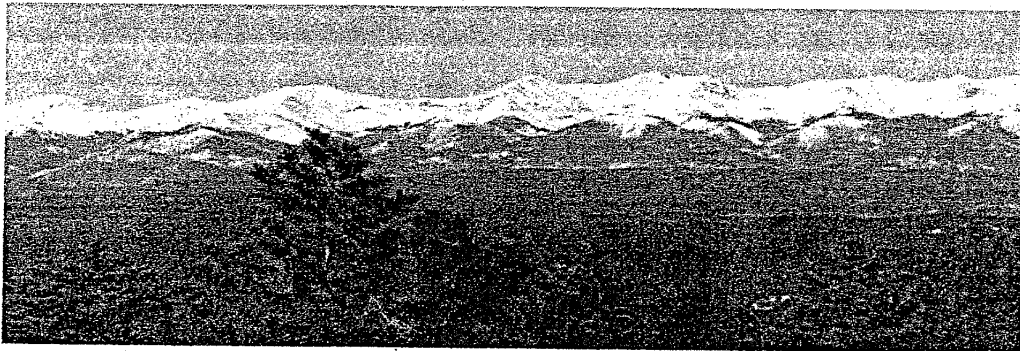
R.L. BANKS & ASSOCIATES, INC.

JAN 11 2002

Lorencito Coal Company, LLC

**Informational
Brochure**

December 1998



Lorencito Coal Company, LLC Technical Presentation

General Description

The Lorencito Property is located on approximately 18,000 acres located in southern Colorado in Las Animas County. The coal and mining rights will be leased by Lorencito Coal Company, LLC directly from the fee owners. Lorencito Coal Company, LLC is owned by A. P. Maxwell Development Company, LLC, which is a joint venture between Bruce Addington and Al Perry Enterprises, Inc.

The coal seams on the Lorencito Property are part of the Raton Formation and are situated above the Trinidad Sandstone. The seams dip slightly to the northeast at a rate of 1.0%. There are 10 minable coal seams on the property 5 of which will be mined in the current mining plan. The seams are correlated and alphabetized in ascending order.

The Primero (I) Seam is located at an elevation of 6,800 ft. above sea level. The seam ranges in thickness from 1.0 ft. to 9.1 ft. Minimum mining thickness will be 4.0 ft.

Coal from the Primero Seam has excellent low fusion steam and metallurgical characteristics. Typical quality for the Primero Seam is

As Received		Dry Basis	
Moisture	6.0%	Sulfur	0.60%
Sulfur	0.64%	Ash	9.0%
Ash	9.5%	BTU	13,800
BTU	13,000	Volatile Matter	31%
		Fixed Carbon	57%
		Free Swelling Index	7 to 9
		DDPM,	
		Max. Fluidity	25,000 to 35,000

The Weston (O) Seam is located at an elevation of 7,100 ft. above sea level. The seam ranges in thickness from 1.5 ft. to 4.0 ft. This seam will be mined by surface mining methods.

The Ciruela (R) Seam is located at an elevation of 7,250 ft. above sea level. The seam ranges in thickness from 1.0 ft. to 6.0 ft. The seam will be mined by deep mining methods in thickness greater than 4.0 ft. and by surface mining methods in other areas.

Two minable coal seams lie between the Weston (O) and the Ciruela (R). These seams will be mined by surface mining methods. The (P) Seam is located at an elevation of 7,150 ft. above sea level and is 2.0 ft. thick. The (Q) Seam is 2.5 ft. thick and is situated at an elevation of 7,200 ft. above sea level.

Coal from the Ciruela Seam (R), Weston (O), (P), and (Q) seams have excellent high fusion steam characteristics. Typical quality for those seams is

As Received		Dry Basis	
Moisture	7.0%	Sulfur	0.65%
Sulfur	0.60%	Ash	9.6% to 12.9%
Ash	9.0% to 12.0%	BTU	13,450 to 13,800
BTU	12,500 to 13,000		

A mining plan has been developed that will bring production from the property to over 2.5 million tons annually and cover a 15 year project life. The project will be developed in two phases. Phase I includes deep mining from the Ciruela (R) Seam and the Primero (I) Seam and surface mining from the Weston (O), (P), (Q), and Ciruela (R) Seams. Production will reach an annual rate of 1.5 million tons during this phase. Mines are divided into small manageable mining units. The purpose is to create reserve areas that can be accessed through the outcrop and mined by single unit deep mines. These single unit mines can be operated with less infrastructure than larger mines. The surface mine will employ mountain top removal methods and use large tractors and cast blasting to remove the overburden. These methods yield low operating cost and low capital requirements for the project. Phase I also includes the acquisition of a preparation plant and unit train loadout. Phase II which will begin in year five of the project includes the development of the large Primero (I) Seam reserve. Two mines will be accessed through a box cut for this phase.

A Life of Mine Permit was submitted to the Colorado Division of Oil, Gas, & Minerals in December 1996. This covers the mining activities for Phase I and Phase II and includes five deep mines, one mountaintop removal surface mine, raw

coal loadout, and related facilities. Approval of the permit was secured in August 1997.

Phase I

Two deep mines and one surface mine will be opened in Phase I of the project. The deep mines will be located in Cow Canyon in the Ciruela (R) and the Primero (I) Seams. The two deep mines will be similar in outside facilities and underground equipment used. Each mine will use a continuous miner unit to extract coal from the seam using room and pillars mining methods. The unit will consist of a continuous miner, a continuous haulage system or rubber tired haulage, two roof bolting machines, and two scoops. The coal will be extracted from the face with the continuous miner and transported by the continuous haulage system or rubber tired haulage to the mine conveyor system which will move it to the outside facilities. After the coal is removed from the face, the exposed area will be supported with roof bolts. The outside facilities will consist of a 10,000 ton raw coal stockpile, office and bath house buildings, power substation, and ventilation fan. The raw coal will be loaded into trucks with a front end loader and hauled to the raw coal loadout by large off road trucks via roads constructed on the property. Each mining section will work two, nine hour shifts daily, five days per week. Independent contractors will be employed to operate the deep and surface mines.

R #1 Mine

The Cow Canyon R #1 Mine in the Ciruela Seam will operate in an average seam height of 4.0 ft. and mine 985 raw tons per unit shift or 1,970 raw tons per day. Using an estimated 65% plant yield, production from the mine is anticipated to be 28,000 clean tons per month or 338,000 clean tons annually. This mine will be in operation until year five of the project when it will be replaced by the R #3 Mine. The average depth of cover for the Ciruela Seam is 350 feet.

P #3 Mine

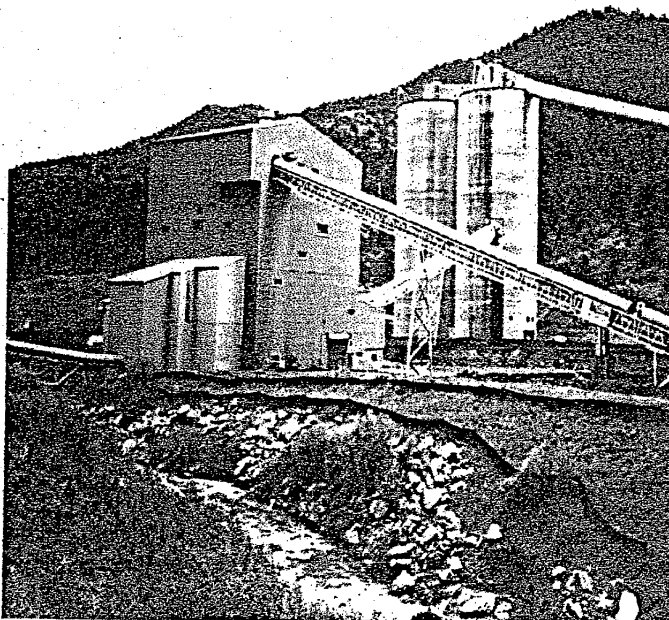
The Cow Canyon P #3 Mine in the Primero Seam will operate in an average seam height of 5.0 ft. and mine 1,325 raw tons per unit shift or 2,650 raw tons per day. With a plant yield of 65% this mine is projected to produce 38,000 clean tons per month or 454,000 clean tons per year. This mine will be in operation until year six

of the project. The average depth of cover for the mine is 500 feet.

Jeff Canyon Surface Mine

Phase I will also include the opening of a surface mine located on the ridge between Jeff Canyon and Puertecito Canyon. The Ciruela Seam and the Weston Seam will be the major seams mined. However three other coal seams within the interburden of the Ciruela and Weston will also be recovered in the mining operation. The equipment used will be a 13 cubic yard front end loader, three 85 ton overburden trucks, three dozers, an overburden drill, and various pieces of support equipment. Cast blasting will also be employed as a method of moving overburden. The mine will produce approximately 50,000 clean tons per month or 600,000 tons annually. Surface mining will commence in year two of the project and continue through the life of the project. Phase I production will reach 1.5 million annual tons in the third year of the project.

Preparation Plant and Facilities



A 550 ton per hour preparation plant has been acquired. The plant circuit consists of a heavy media vessel, deister tables, and coal spirals. The plant will be renovated in year two of the project. The renovation will consist of replacing the deister tables with heavy media cyclones. The plant has raw and clean coal storage areas with 100,000 ton(st) capacity each. Phase I construction will incorporate modifying the raw and clean coal handling systems to accommodate

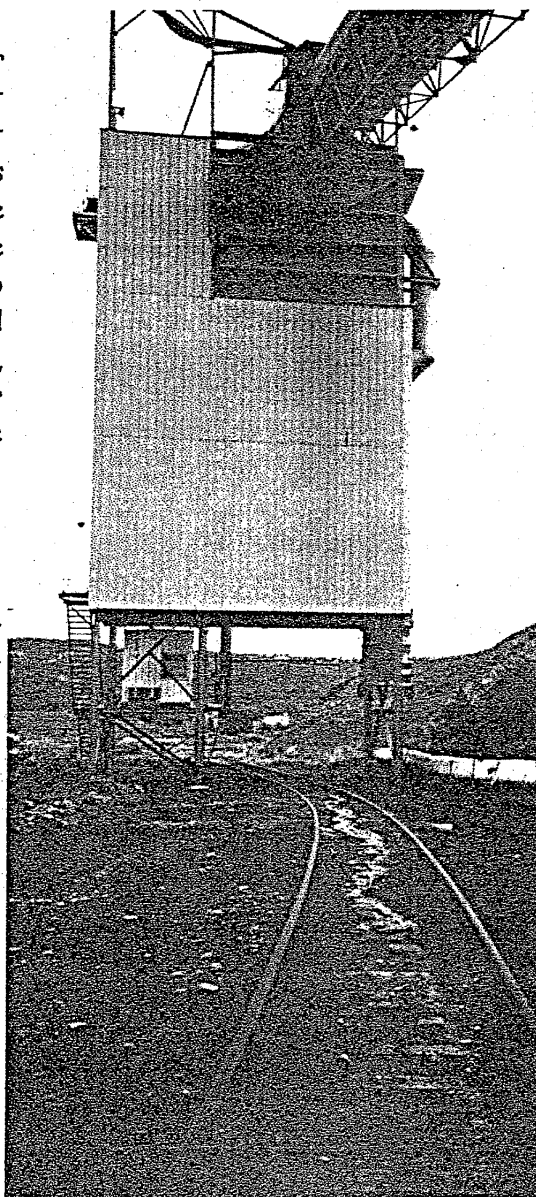
product segregation and the construction of a raw coal rail car unloading facility. There is a 50 acre refuse disposal area. The site has disposal capacity for 10 years with an adjacent area available for future use. All of the facilities are covered by an active reclamation and mining permit.

Loading Facilities

In addition to the plant a 5,000 ton per hour, 120 ton batch weigh bin, unit train loadout is located at the plant site. The weigh bin's accuracy enables the weight of the loaded car to be certified by the rail hauler without the use of track scales. The loadout is also equipped with an ASTM approved automatic coal sampling system. Two, 12,000 ton silos are also available for product storage. The loadout has the capability to load 12,000 ton trains.

Railroad Facilities

Coal will be hauled 7.0 miles to the plant by shuttle train. The shuttle train will consist of two locomotives and 25 rail cars. The Lorencito Project is the only known Western US coal mine which has access to all major western railroads including the Burlington Northern Santa Fe and Union Pacific. The Trinidad Railroad, wholly owned by the partners of Lorencito Coal runs from the plant to the town of Trinidad a distance of 33 miles. This connects the project with each of these major Western railroads. We therefore believe we have the best location for competitive transportation in the



Western US. The distance from the mine to LAXT is 1,150 miles.

Phase II

Phase II consists of opening a box cut in Lorencito Canyon to access the main Primero Seam reserve and opening a mine in the Ciruela Seam in Chimney Canyon. The box cut in Lorencito Canyon will be 90 feet in depth and access the Primero Seam where the mining height will be greater than 4.0 ft. Two mines will be opened from this location, each having two mining units. The box cut will be connected to the raw coal loadout by a haul road. The two mines will use similar mining equipment. Each will have a continuous haulage system for mining the room and pillar areas of the reserve. In addition the second unit in each mine will consist of a continuous miner, three battery ram cars, two roof bolting machines, and two scoops. The ram car section will be used to drive the main entries and the bleeder entries. Transportation of men and supplies at both mines will be accomplished with diesel equipment.

P #1 & P #2 Mines

The P #1 Mine will operate two units and mine in an average height of 5.0 ft. Monthly production will reach 73,900 clean tons at a 65% yield. The annual production is projected to be 887,000 tons. The P #2 Mine will also operate two units in an average height of 60 inches. This mine will produce 70,400 clean tons per month or 845,000 clean tons annually. Both of the mines will have mined 60% of the reserve area at the end of Year 10 of the project.

R #3 Mine

The R #3 Mine will also be mined in Phase II. It will take the place of the R #1 Mine in year five of the project. The Ciruela Seam in Chimney Canyon is 5.0 ft. in height. The mining unit from the R #1 Mine will be used and produce 45,000 clean tons per month or 540,000 clean tons on an annual basis. The surface mine will continue production through this phase of the project. Total annual production for Phase II will be 2.5 million tons(st).

**Lorencito Mine
Production Schedule**

Mine	PHASE I				PHASE II		
	1999	2000	2001	2002	2003	2004	2005
R #1	88,000	252,000	252,000	252,000	252,000	252,000	252,000
R #2							
R #3							
R #4							
P #1				341,400	748,700	802,200	802,200
P #2					399,700	401,300	401,300
P #3	113,300	335,800	335,800	335,800	335,800	335,800	335,800
Jeff Canyon Strip							
Oxidized Coal		109,600	86,800	81,600	81,300	62,200	70,400
Raw Coal		298,400	495,900	469,100	422,300	399,500	444,400
Washed Coal		23,200	38,600	36,500	32,900	31,100	34,600
Total Deep	199,300	587,800	587,800	929,200	1,736,200	1,791,300	1,791,300
Total Strip	0	431,200	621,300	587,200	536,500	492,800	549,400
Annual Production	199,300	1,019,000	1,209,100	1,516,400	2,272,700	2,284,100	2,340,700

Mine	Replacement Production						Reserves Mined
	2006	2007	2008	2009	2010	2011	
R #1	153,200						1,751,200
R #2							0
R #3	132,100	336,900	336,900	336,900	200,200		1,343,000
R #4					136,700	336,900	473,600
P #1	802,200	802,200	802,200	802,200	802,200	802,200	7,507,700
P #2	401,300	401,300	734,800	802,600	802,600	802,600	5,147,500
P #3	335,800	335,800	56,700				2,856,400
Jeff Canyon Strip							
Oxidized Coal	90,900	59,700	65,700	84,800	80,900	81,100	955,000
Raw Coal	350,000	392,000	458,300	436,800	424,900	466,100	5,057,700
Washed Coal	27,200	30,500	35,800	33,900	33,000	36,300	393,400
Total Deep	1,824,600	1,876,200	1,930,600	1,941,700	1,941,700	1,941,700	19,079,400
Total Strip	468,100	482,200	559,600	555,500	538,800	583,500	6,406,100
Annual Production	2,292,700	2,358,400	2,490,200	2,497,200	2,480,500	2,525,200	25,485,500

Lorencito Coal Company
Typical Steam Coal Quality

PROXIMATE ANALYSIS (% by weight)

Washed	As Received	Dry Basis
BTU	12,600	13,350
Kcal/Kg	7,000	7,415
Sulfur	0.60	0.65
Ash	10.00	10.60
Moisture	5.50	
Volatile	31	33
Fixed Carbon	53	56

ULTIMATE ANALYSIS Dry Basis

Carbon	77
Hydrogen	5.1
Nitrogen	1.4
Chlorine	0.0
Sulfur	0.65
Ash	10.6
Oxygen	5.4

SULFUR FORMS Dry Basis

Sulfate	0.02
Pyritic	0.08
Organic	0.55

WATER SOLUABLE ALKALIES Dry Basis

Sodium Oxide	0.01
Potassium Oxide	0.01

EQUILIBRIUM MOISTURE	1.9
FREE SWELLING INDEX	3.5
HARDGROVE GRINDABILITY	60

ASH FUSION TEMPERATURES, degrees F

Upper Seams	Reducing	Oxidizing
Initial Deformation	2440	2480
Softening, (H=W)	2540	2580
Hemispherical (H=1/2W)	2560	2620
Fluid	2600	2640

ASH FUSION TEMPERATURES, degrees F

Primero Seam	Reducing	Oxidizing
Initial Deformation	2250	2350
Softening, (H=W)	2300	2400
Hemispherical (H=1/2W)	2350	2450
Fluid	2400	2500

ANALYSIS OF ASH

	Assay %
Silica (SiO ₂)	50.0
Alumina (Al ₂ O ₃)	27.0
Titania (TiO ₂)	1.8
Ferric Oxide (Fe ₂ O ₃)	7.1
Calcium Oxide (CaO)	5.0
Magnesia (MgO)	1.3
Sodium Oxide (Na ₂ O)	0.3
Potassium Oxide (K ₂ O)	0.3
Phosphorous Pentoxide (P ₂ O ₅)	2.0
Sulfur Trioxide (SO ₃)	3.7

ASH VISCOSITY CALCULATIONS

Basic Content (%)	14.0
Acidic Content (%)	86.0
Base to Acid Ratio	0.17
Silica to Alumina Ratio	1.85
T250 Poise Viscosity, F	2550+

Lorencito Coal Company
Typical Metallurgical Coal Quality

PROXIMATE ANALYSIS (%)

	As Received	Dry Basis
Moisture	6.0	
Volatile Matter	31.0	33.0
Ash	8.5	9.0
Sulfur	0.6	0.6
Fixed Carbon	54.0	57.5

PLASTIC PROPERTIES OF COAL

Maximum Fluidity (DDPM)	23,000 to 38,000
Initial Softening (1 DDPM), C	380
Maximum Fluid, C	450
Solidification, C	490
Temperature Range, C	105
Torque, Gm. In.	40

Free Swelling Index 7.5 to 9

Equilibrium Moisture 2.0%

Font Calculated From
Petrographic Analysis

Mean Maximum Reflectance Ro = 0.94

MACERAL ANALYSIS Volume %

REACTIVE

Vitrinoids		
Type	8	16.5
	9	51.8
	10	5.9
Total		74.2

Reactive Semifusoids	1.3
Total Exinoids	1.4
Total Resinoids	2.1
Total Reactive Components	79.0

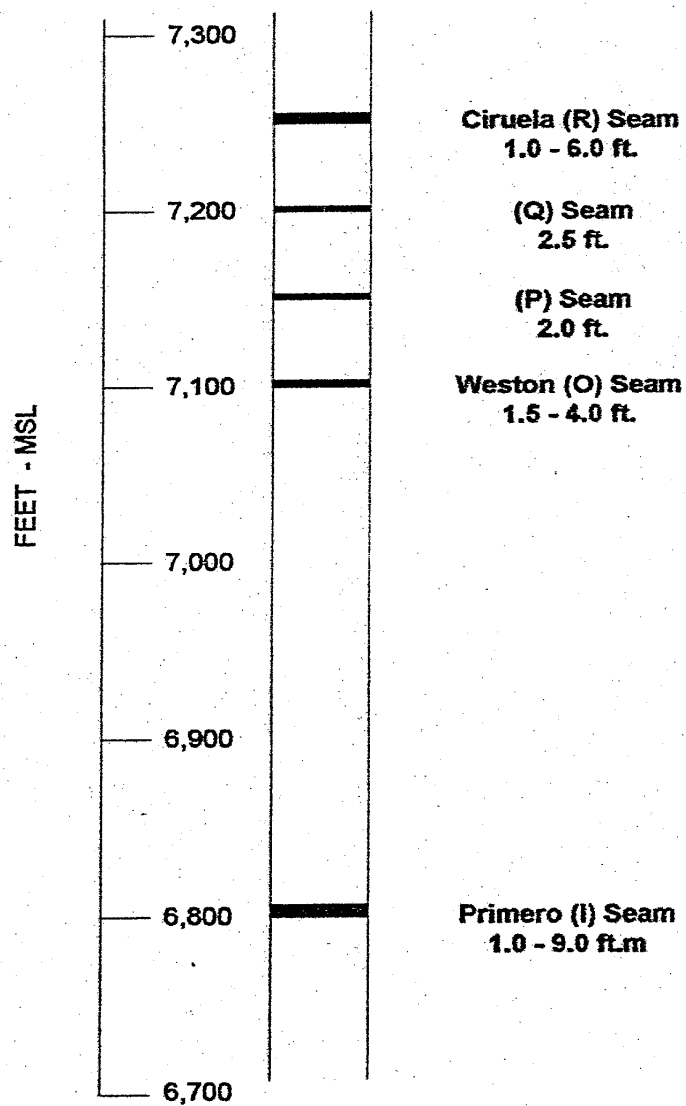
INERT

Total Fusinoids	1.2
Inert Semifusoids	2.7
Total Micrinoids (Massive Granular)	11.4
Mineral Matter	5.7
Total Inert Components	21.0

Coke Stability

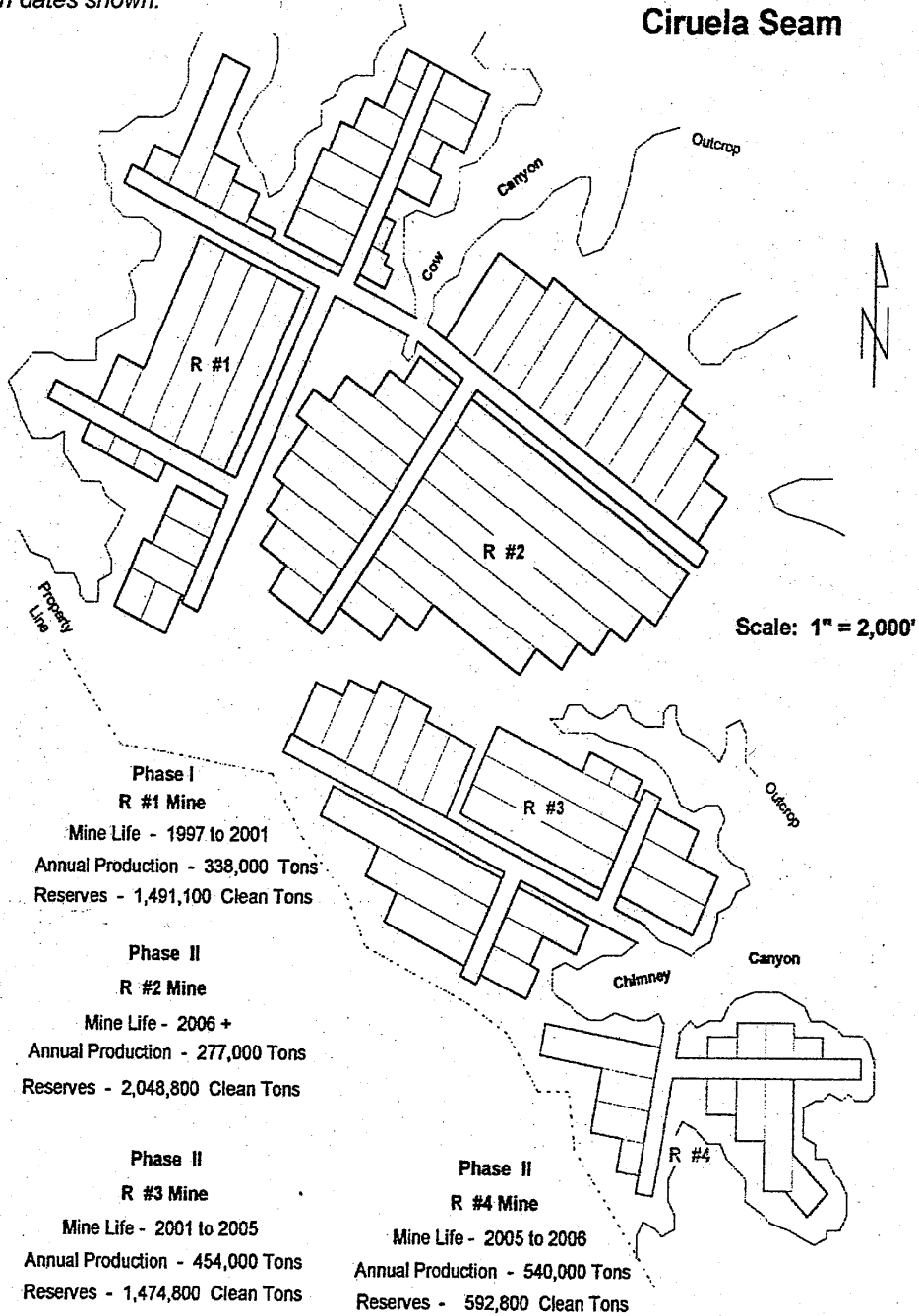
Composition Balance inde	0.66
Strength Index	3.49
Predicted Coke Stability	44

Lorencito Property Typical Columnar Section



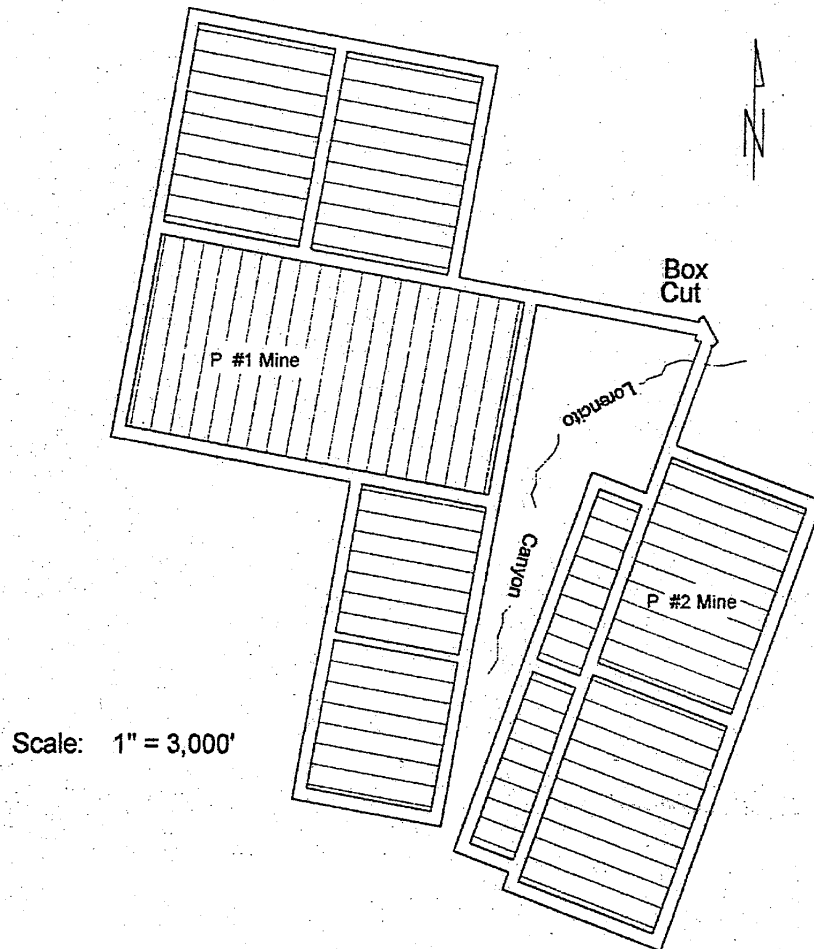
Note: The schedule for these mines is delayed approximately 2 years from dates shown.

Mine Layout Ciruela Seam



Note: The schedule for these mines is delayed approximately 2 years from dates shown.

**Mine Layout
Primero Seam
P #1 and P #2 Mines**



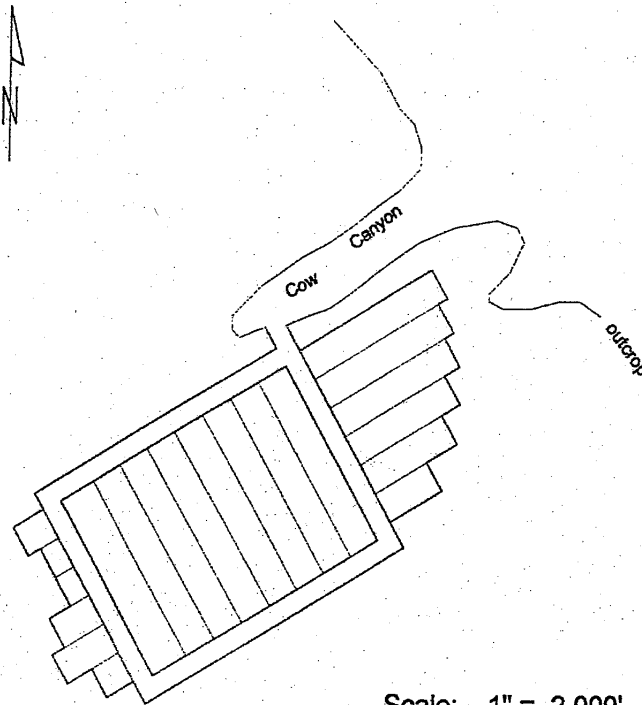
Phase II

Mine Life - 2000 to 2006+
Annual Production - 887,000
Reserves - 10,108,000 Clean Tons

Phase II

Mine Life - 2001 to 2006+
Annual Production - 845,000 Tons
Reserves - 6,065,600 Clean Tons

**Mine Layout
Primero Seam
P #3 Mine**



Scale: 1" = 2,000'

*Note: The schedule for these mines
is delayed approximately 2 years
from dates shown.*

Phase I

Mine Life - 1997 to 2001
Annual Production - 454,000 Tons
Reserves - 2,453,000 Clean Tons

RL BANKS & ASSOCIATES, INC

JAN 11 2002

***Lorencito Project
Market Update***

by

Al Perry Enterprises, Inc.

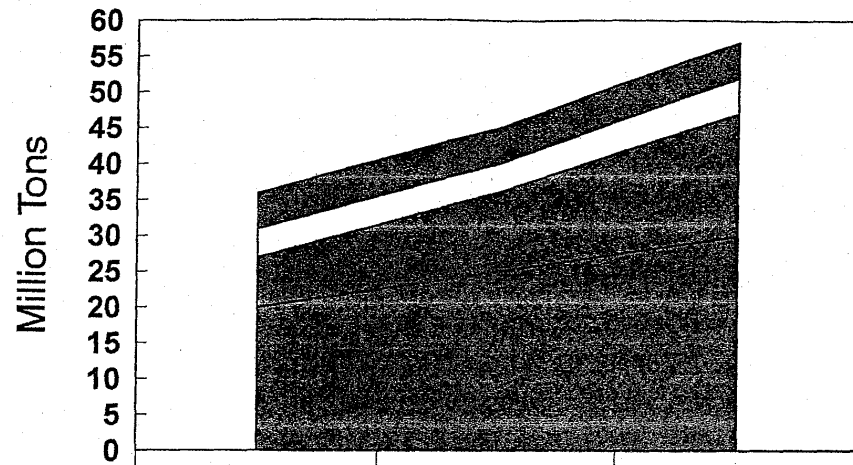
June 1999





Demand for Lorencito Coal

Figure 1



	1995	2000	2005
High Ash Industrial	5	5	5
Coking coal	4	4	5
Low Fusion	7	11	17
High Fusion	20	25	30

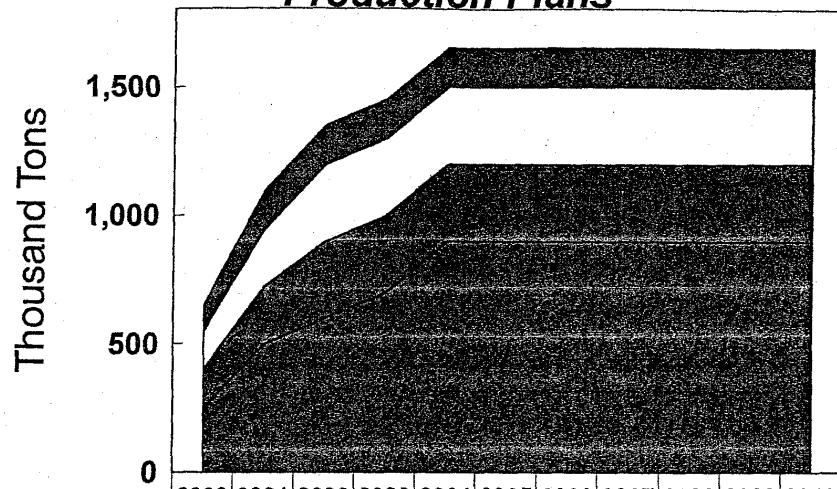
Demand for low sulfur, high BTU coal is expected to increase substantially as Midwest utilities fuel switch in meeting the requirements of Phase I and Phase II of the Clean Air Act. Coal from Colorado is expected to incur the greatest growth because of the high inherent quality, compatibility with Eastern boilers, and favorable transportation rates.

Lorencito is particularly well suited because: 1.) One of the few coals in the U.S. with high BTU, low sulfur and low ash fusion for wet bottom or cyclone boilers, 2.) Access to all major Western railroads including the Southern Pacific, Santa Fe, Burlington Northern, and Union Pacific, 3.) Geographically located East of the Rocky Mountains allowing for favorable transportation logistics to the growing Midwest steam coal markets, and 4.) High fluidity, high Free Swell Index coking coal attributes for domestic and export customers.



Lorencito Production Plans

Figure 2



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
High Ash Industrial	100	150	150	150	150	150	150	150	150	150	150
Low Fusion	150	225	300	300	300	300	300	300	300	300	300
High Fusion	150	225	300	300	300	300	300	300	300	300	300
Coking	250	500	600	700	900	900	900	900	900	900	900

The Lorencito project should be considered for contour strip, highwall miner, and conventional underground mining.

Our production plans are to develop several one unit underground mines to extract both coking coal and low fusion steam coal. We also plan contour stripping along with mountain top removal mining to extract coal along the numerous outcrops and multiple seams.

A coal preparation plant has been secured and includes a heavy media vessel, heavy media cyclones and spirals.

A unit train loadout to load 120 rail cars in less than 2 hours including batch weighing and automatic sampling has been purchased.



Targeted Customers
Based on Coal Quality & Location to Markets

Figure 3

Low Fusion	High Fusion	Coking
TVA/Allen	TVA/Shawnee	Far East Export
Wisconsin utilities	Pub. Serv. of Col.	European Export
Tampa Electric	Colorado Springs	Dom. Steel Mills
N. Indiana Pub. Serv.	Salt River Project	Brazilian Steel Mills
Commonwealth Ed.	Export	
	Southwest Industrial	
	Tucson Gas & Electric	
	Arizona Electric Coop	

Lorencito's market is diversified as it can meet the stringest requirements of the high fluidity coking market, low fusion steam coal market, high fusion steam coal market, and industrial market.

Primary markets include Midwestern steam, Southwest industrial, and domestic and export coking coal markets.



Estimated Rail Rates for Selected Movements
(dollars per short ton)

Figure 4

Origin	St Louis FOB Barge	BRT FOB Barge	Cincinnati FOB Barge	Los Angeles FOBT
Raton Basin, CO	\$13.00	\$15.50	\$18.00	\$20.00

Shown above are estimated rail rates for the next five years. Today's rates are somewhat less, but are expected to increase as the demand for Western coal continues to increase.



Typical Coal Quality

Figure 5

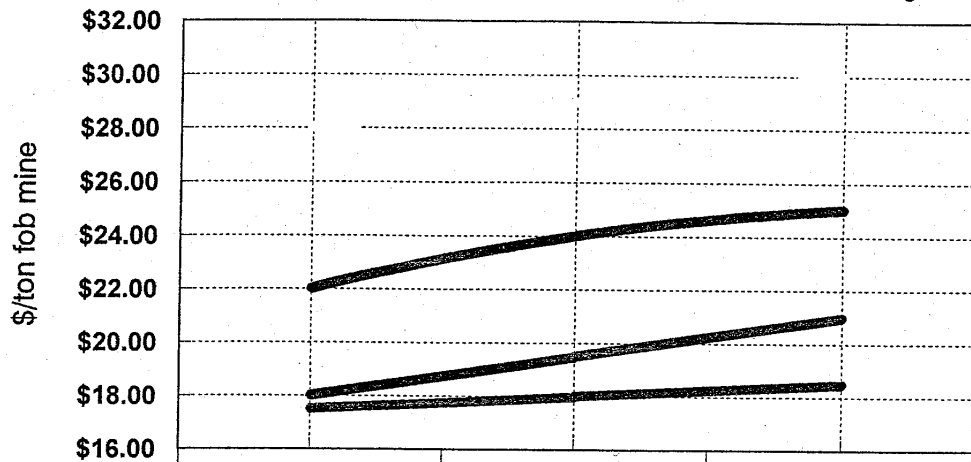
Coal Type	Ash	Sulfur	BTU/Fluidity
Low Fusion	8% to 12%	.5% to .6%	12,200 to 13,200
High Fusion	8% to 12%	.5% to .6%	12,200 to 13,200
Coking Coal	8% to 9% (dry)	.6% to .7% (dry)	28,000 DDPM
High Ash Industrial	12% to 18%	.5% to .6%	11,500 to 12,200

Lorencito coal quality is, quite simply, the highest quality steam and coking coal in the Western U.S.



Lorencito Coal Price Forecast FOB Rail Car

Figure 6



	1995	2000	2005
High Fusion	\$18.00	\$19.50	\$21.00
Low Fusion	\$22.00	\$24.00	\$25.00
Coking	\$28.00	\$29.00	\$30.00
High Ash Industrial	\$17.50	\$18.00	\$18.50

High fusion, compliance coal will increase about \$1.50 per ton by the year 2000 and another \$1.50 per ton by the year 2005. Low fusion, compliance coal will sell at a premium as only a few low fusion, high BTU, compliance sulfur coal mines exist in the U.S.



Lorencito Coal Company, LLC

*"Highest Quality Steam and Metallurgical Coal
in the Western United States"*

Lorencito Coal Company, LLC is controlled by Bruce Addington who has over twenty five years of operating experience. The 18,000 acre property is located in the Raton Basin of Southern Colorado with connections to all major western railroads including Burlington Northern Santa Fe and Union Pacific. The new coal mines are located 20 miles west of Trinidad, Colorado on U.S. 12.

Lorencito has a permit on a 200 million ton, high BTU, low sulfur coal reserve, which is being permitted and developed into a surface and underground mine complex. The mines will produce 2.0 million tons per year of high BTU, low sulfur steam and coking coal for domestic and export markets. Facilities include access to a 30 mile short line railroad, unit train batch loadout facility and heavy media wash plant.

[\[Click here to see project location\]](#)

Lorencito Coal Company Lorencito Mines

Project Summary

- 18,000 acres
- 200 million tons in place
- Recoverable, clean surface reserves of +25 million tons
- Recoverable, clean underground reserves +40 million tons

■ Metallurgical coal quality-dry basis:

- 6% Moisture
- 8-9% Ash
- .60% Sulfur
- 31% Volatile matter
- 57% carbon
- 58 coke stability
- 7-9 free swell index
- 25,000 to 35,000 DDPM maximum fluidity

■ Steam coal quality- as received basis

- 7% moisture
- 10% ash
- .60% sulfur
- 12,500 to 13,000 BTU/pound

■ Extensively drilled and evaluated

■ Major Western railroads serving property

- Burlington Northern Santa Fe
- Union Pacific

■ Permitted and bonded

■ Commencement of mining by fourth quarter, 2001.

■ Planned production of 750,000 tons per year of metallurgical coal and 750,000 tons per year of steam coal during the first five years of mining.

■ 2,500,000 tons per year of production from surface and mining methods by the year 2005.

■ For underground mining, coal reserve has potential for room and pillar, and longwall extraction.

■ For surface mining, coal reserve has potential for contour, mountaintop removal, and highwall mining extraction.

■ 550 tons per hour heavy media coal preparation with spirals

- Unit train batch loading to accommodate four hour loading for up to 12,000 tons per train.
- 30 Mile Short Line Railroad which connects with all major western railroads.

Exclusive Sales Agent

Al Perry Enterprises, Inc.
9203 Petersburg Rd.
Evansville, IN 47725
Phone: (812) 867-7727
Fax: (812) 867-7705
E-mail: alperry@alperry.com

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ATTACHMENT C

BEFORE THE
SURFACE TRANSPORTATION BOARD
WASHINGTON, D.C. 20423

STB Docket No. AB-573X

TRINIDAD RAILWAY, INC.—ABANDONMENT EXEMPTION—
IN LAS ANIMAS COUNTY, CO

STB Finance Docket No. 33956

KERN VALLEY RAILROAD COMPANY – ACQUISITION AND
OPERATION
EXEMPTION-TRINIDAD RAILWAY, INC.

Verified Statement
Of
Kenneth Cotten, P.E.

My name is Kenneth Cotten. R.L. Banks & Associates, Inc., (RLBA) engaged me to provide an assessment of the physical condition and a net liquidation value of the Kern Valley Railroad property.

I am a consultant with fifty years of engineering experience in nearly all railroad industry components including transportation, track and structures design, construction, maintenance, inspection and evaluation. I received my Bachelor of Science degree in Civil Engineering from the University of Kentucky in 1957. I have had subsequent professional training in bridge inspection at the University of Wisconsin-Madison (1993, 1994, 1995, 1997 and 1998); railroad bridge

loading by the American Railway Engineering and Maintenance-of-Way Association in Kansas City, Missouri, in 1997; ultrasonic levels I and II and magnetic particle/liquid penetrant by Sperry Schools for Non-Destructive Testing in 1987; railway and highway bridges, and inspection rating and upgrading at George Washington University, in 1984; and modern industrial electronic weighing and data handling systems at the Center for Advanced Education in New Jersey in 1981. I am a Registered Professional Engineer in Florida (#41488) and Kentucky (#3768), and I am a member of the American Railway Engineering and Maintenance-of-Way Association, and of that organization's Timber Structures, and Light Density and Short Line Railways, committees.

I was employed by CSX Transportation, Inc., and its predecessor companies, Chessie System, C&O and B&O Railroads, from 1948 to 1950 and from 1953 to 1990, rising through positions of axeman/rodman, bridge designer, assistant engineer, assistant division engineer, work program engineer, chief track inspector, chief bridge inspector, and engineer bridge inspection. Following retirement from CSX, I established Engineering Services, Inc., to provide engineering expertise to Class I, regional and short line railroads. In summary, I was educated for, and my professional life has been devoted to, design, inspection, construction and maintenance of railroad bridges and track.

Estimation of Net Liquidation Value (NLV)

The NLV of track assets (excluding land and rolling stock) in the rail line between Milepost 2.0 (west of Jansen Yard (near Trinidad, Colorado)) and Milepost 30.00 (Picketwire (Stonewall), Colorado), is estimated to be \$3,830,696 as of February 27, 2002. The estimated NLV, which is summarized on Table 1 below, is arrived at in two principal steps: first, computation of gross liquidation value (GLV), the market value of salvageable assets (primary components with a value greater than related salvage expenses); and second, NLV, that value remaining after deductions of liquidation expense due to removal, administration/marketing, and restoration as necessary to render assets saleable, conduct of the sales process (self-brokered) by a purchaser and preparation of the corridor for non-rail use.

Table 1 NLV of Track Assets between Mileposts 2.00 and 29.85 (West of Jansen Yard to Picketwire, Colorado) (dollars in thousands)		
Gross Liquidation Value –In Situ Materials		4,694
Less Liquidation Expense:		
Track Removal	313	
Transportation	59	
Highway Crossing Restoration	23	
Administration and Marketing	469	
Total Liquidation Expense		863
Net Liquidation Values		3,827
Source: Appendix One.		

The primary NLV is that associated with the rail; however, ties may possess noteworthy value. Market prices utilized in the calculation of NLV were

appropriate to the condition of the ties and steel materials in place and were obtained from suppliers. The estimated NLV arrayed in Table 1 has not been adjusted for the time period that would be consumed in proceedings to obtain abandonment authority.

Methodology to Compute NLV

NLV is determined through application of a multiple step process, the building blocks of which are:

- (1) Gross Liquidation Value
 - (a) Fixed Asset Ownership
 - (b) Fixed Asset Inventory
 - (c) Inventory Adjustment for Wear and Recovery Reductions
 - (d) Application of Market Value Unit Prices
- (2) Liquidation Expense
 - (a) Removal Expense (including transportation)
 - (b) Restoration Expense (grade crossings only)
 - (c) Administration and Marketing Expense
- (3) Net Liquidation Value [(1) minus (2)]

Appendix One to this report provides detailed computational data, including inventory and unit costs by type of asset valued.

Gross Liquidation Value (GLV)

GLV in the context of this analysis was defined as current retail market value (with the exception of ties, as explained below) of all fixed assets as if they were available for immediate sale. Bridges, highway crossing devices and culverts, as will be explained later, often have no positive NLV value because of high removal costs.

Fixed Asset Ownership

This valuation encompasses all of the Kern Valley Railroad between Milepost 2.00 (west of Jansen Yard (Trinidad, Colorado)) and Milepost 30.00 (Picketwire (Stonewall), Colorado). This includes the main track, double ended siding at Segundo, MP 14.9, coal tipple tracks at MP 28.25, and a shop facility at MP 29.25.

Fixed Asset Inventory

To assess the physical condition and determine future maintenance requirements for track and bridges, I inspected this property by high rail and on foot on February 14-15, 2002. I was accompanied by Mr. Court Hammond, President of Colorado Central Railway Company (CCR), contract operator of the rail line, on February 14, and by Mr. Sam Lopez, Roadmaster of CCR, on February 15. Data related to track and structure conditions was observed during these two high rail trips. There are 19 structures (bridges) on this property, and as a part of a cursory inspection of those structures, the opportunity to walk and

inspect sections of the track at each location was presented. Rail, ties, ballast and drainage conditions were observed and noted. Mr. Lopez explained the proposed future track maintenance program and past practices prior to the discontinuance of operation in March 1996. Mr. Lopez has been an employee of this railroad for several years prior to the termination of service, and is very knowledgeable of past maintenance practices. His input is an important part of this NLV estimate.

Steel. The most significant marketable materials reflected in this appraisal were steel track components, assumed to be sold for railroad reuse or as steel mill scrap, depending upon condition. Generally, rail in the Kern Valley Railroad main track can be reused ("fit") in other railroad applications, since it consists of 115 RE and short sections or 119 RE and 132 RE. (The rail designation "115 RE" indicates that this particular rail weighs 115 pounds per yard, and is of American Railway Engineering Association design.) All Kern Valley Railroad rail is either Class 1 or 2 relay, or scrap. Rail not suitable for reuses because of excessive side head wear, excessive metal flow, holes mid-rail, short length or attached asphalt or concrete is suitable only as scrap.

All main track rail is of 132, 119, and 115 pound per yard weight of American Railway Engineering Association sections. The 0.2 track miles of 132 pound per yard is continuous welded rail laid on both sides of the track. All 132 pound rail is assumed to be Class 1 or 2 relay rail. The 1.2 miles (one side of track only) of

119 pound per yard rail is laid on the "high rail" of several curves, and is all Class 1 or 2 relay rail. The 115 pound rail is laid on all of the remaining property (27.21 miles of track). 90% of this rail is Class 1 and 2 relay and the remaining 10% is scrap. There is a small amount of 85 pound per yard rail at the shop area. This rail, 0.05 miles, including one turnout, is all considered as scrap.

Rail Classification. Class 1 and 2 rail is generally used as relay for main line and heavy branch lines. Class 1 requirements are only slightly more stringent than Class 2. Both can have minor or very small engine burns and corrugations. Wear dimensions for 115 and 119 pound per yard Class 1 provides for 1/8 inch maximum top wear, and 1/4 inch maximum gage side wear. Class 2 provides for 1/4 inch maximum top wear, 3/8 inch gage side wear and 1/4 inch maximum flow on one side.

Class 3 rail is generally used for light branch lines. This rail can have medium engine burns and corrugations. Wear dimensions for 115 or 119 pound Class 3 provides for 3/8 inch maximum top wear, 5/8 inch maximum gage side wear and 1/4 maximum flow on one side.

Class 4 rail is generally used for yard and industrial siding rail. Occasionally, it is also used to reroll to another section. This rail can have heavy engine burns and corrugations that do not mash or fracture the rail. Wear dimensions for 115 or

119 pound rail provide for 1/2 inch maximum top wear, 7/8 inch maximum gage side wear and 5/8 inch maximum flow on one side.

Scrap Rail is any rail with wear dimensions greater than those described above and in many cases any rail less than 100 pounds per yard. Rail sections less than 100 pounds per yard are subject to failure with the heavier (286,000 pound) cars now being moved over the railroads. All scrap rail must be cut into 3 foot lengths for sale to a dealer.

All 11 main and yard track turnouts are 115 pound per yard. All 11 are in good condition with little switch point wear. All frogs are railbound manganese insert heavy duty and are in good condition. All material can be reused, except that the 85 pound turnout at the shop is scrap and is not to be reused.

Most of the tie plates corresponding to 115, 119 and 132 pound rail are reusable. Only 10% of the tie plates corresponding to 115 pound rail are considered scrap (mostly due to location--crossings and the coal tipple area). All other track material (OTM) such as nuts, bolts, washers and spikes are considered as scrap.

Ties. Because tie installation costs often exceed tie material costs, only the very best ties (Number 3 and 4) are suitable for reuse. The cost to sort, handle, transport and inventory ties is high, and in comparison with the wholesale prices they command, the yield is generally only a low net salvage value. According to

the Roadmaster, Mr. Lopez, the proposed tie replacement for the entire railroad including yards and sidings is 3,000 to 4,000 ties per year. This amounts to about 100 ties per mile of track. It is estimated that 75% of the ties are Number 3 and 4 and are reusable, 15% are reusable as yard or side track ties and the remaining Number 1 ties are scrap or landscape ties.

Ballast. No value net of the cost of sale was assumed for the ballast.

Other Track Assets. No net salvage value was assigned to signals and communications facilities, highway crossing signals, highway crossing panels, or culverts on the line. Highway crossing signals generally have little or no alternative use value. Use by even a short-line railroad to replace a damaged signal is unlikely; typically, no inventory is kept on-hand and new replacements are ordered from standard suppliers for immediate installation. Marketing costs to inform railroads for second-hand availability and handling costs would exceed amounts which could be recovered through sale. Signal materials scrap value would not exceed salvage costs. Likewise, there is no ready market in which to sell used highway crossing panels.

Application of Market Value Unit Prices

These GLV and NLV estimates are based on the application of actual unit market prices as supplied by specifically identified market participants, shown in Table 2 on the following page. It was assumed that a purchaser would use its own

personnel to remove, organize and sell released materials as opposed to a single bulk transaction to a rail or scrap broker at wholesale price. However, used crossties are assumed to be sold in bulk to a broker at a net wholesale price reflecting removal by the broker. Comments on a few key prices follow.

Table 2 Unit Market Prices February 27, 2002		
Track Asset	Unit Price	
	Per Component	Per Net Ton
Rail, 115 pounds per yard, Class 1 and 2		\$475
Rail, 119 pounds per yard, Class 1 and 2		400
Rail, 132 pounds per yard, Class 1 and 2		475
Rail, scrap		156
Fit Tie Plates Double Shoulder 7 ¼ x 13, 115#	4.00	
Fit Tie Plates Double Shoulder 7 ¼ x 14, 119#	4.00	
Fit Tie Plates Double Shoulder 7 ¼ x 14, 132#	4.25	
Fit Tie Plates Double Shoulder 7 ½ x 8 ¾, 85#, scrap		85
Fit Joint Bars 119/115 pounds per yard	30.00	
Scrap Joint Bars		85
Rail Anchors	0.40	
Other Track Material (nuts, bolts, washers, spikes)		100
Turnouts, fit	5,500	
Turnouts, scrap	200	
Ties, Relay, Number 3 and 4	12.00	
Ties, Relay, Number 2 (Yard)	8.00	
Ties, Landscape	1.00	

Sources: Progress Rail, L.B. Foster.

The bulk of the relay material is 115 pound per yard rail, which has a higher market value than the other popular sections of 132 and 136 pounds per yard. I have discussed the value of this rail with several rail dealers. The 115 pound per

yard section is marketable, and is in the most demand as relay rail available for short line and regional railroads, and for new side track construction on large railroads.

I also found that relay ties Number 3 and 4 currently retail for \$12.00. Number 2 yard ties retail at \$8.00, and landscape ties, \$1.00.

Liquidation Expense

Three fundamental assumptions are employed in development of expenses to be netted against gross liquidation values: (1) costs associated with removal, sorting and transporting railroad materials, reflecting a deliberate and efficient liquidation; (2) restoration expenses, assumed to be required for highway crossings; and (3) administration of liquidation and marketing activities, including coordination with local governments.

Removal Expense

The cost of taking up track, including disassembly, sorting, stacking, and loading of materials for shipment and disposing of ties, was estimated at \$10,000 per mile where rail can be reused.

Restoration Expense

As a condition of service termination and non-rail reuse of the real property, governments frequently require correction of existing conditions that might cause

the public sector to incur future expense. Such regulations affect NLV determination in three principal asset categories: (1) bridges and culverts, (2) highway crossings, and (3) structures. Since ballast is of no value it is assumed the tie contractor will smooth the ballast to fill the openings left by the tie removal. No cost has been added for this procedure.

Some states might require bridge superstructure removal along the subject right-of-way as a condition of termination of service and reuse of the real property. I assumed that the cost to remove superstructures would approximate salvage proceeds, resulting in no impact on NLV. While removal expense could exceed salvage proceeds, it is not unusual for bridges and culverts to be left in place in the event a line is converted to a trail. Supporting bridges and sub-structures are assumed to be allowed to remain in place, thereby generating neither proceeds nor expenses. There are several steel girder bridges that may have sale value to other railroads. No value has been assumed for this material in this NLV. The concrete bridges on this line are virtually indestructible. Their removal would be costly and there is no return on the material.

All tracks in roadway and crossing protection devices generally must be removed, and pavement restored as a condition of service termination. The removal of track materials from pavement and restoration of pavement is estimated at \$2,500 per public crossing. The nine paved crossings are located at

various locations along the line. Removal of the crossing protection devices is estimated to equate to salvage value.

Marketing and Administrative Expense

In addition to marketing and transportation administration, a liquidation staff would need to coordinate with various government agencies to arrange for highway grade crossing restoration and any other requirements which may present themselves. In addition, contracts might have to be awarded and administered for track take-up. The cost to administer liquidation and market steel assets so as to achieve retail prices is included in this NLV.

Net Liquidation Value

NLV is the remainder after liquidation expenses are deducted from GLV. This is a reasonable expectation of what a seller could receive if the line had been liquidated in February 2002. No deductions were made from market value for any materials that in quantity could exceed market demand and depress prices below those used in this report; however, as the released quantities were not consequential, it is not anticipated that the market value would be affected.

Qualifications to the Valuation

This valuation reflects my best professional judgement given the level of effort and specific appraisal methodology. I warrant that my conclusions are based upon objective assessments of the facts provided by Kern Valley Railroad

Company, CCR (the contract operator) or independently obtained by RLBA, or by me in the course of my inspection and analyses. However, any reliance by users upon the results of this analysis should be conditioned upon the recognition of limitations inherent in the valuation effort authorized.

RLBA's valuation pertains to approximate values as of February 27, 2002. Changes in the condition of the property and its environs and specific incidents and occurrences after that date may affect value in unanticipated ways.

Differences Between My Valuation and That of A&K

There are differences in the amount of rail, OTM, ties, etc., between the report prepared by A&K Railroad Materials, dated November 14, 2000, and that compiled as a result of my inspection, conducted on February 14-15, 2002. When A&K conducted its survey in November, 2000, the track structure was overgrown with vegetation. No vegetation removal was accomplished between March 1996 and just prior to the resumption of service by the railroad in October 2001. I had the advantage of a clean track structure to observe and evaluate.

On February 14-15, 2002, the entire railroad was inspected from a high rail vehicle, supplemented by numerous instances of walking. I saw the property from Milepost 2.00 west of Jansen Yard to Milepost 30.00 at the shop area at Picketwire Mine. At that time, the property was clean and free of vegetation. Colorado Central employees familiar with the railroad aided in locating rail

changes (132, 119, 115, and 85 pound rail) and tie counts. Actual locations were made to the nearest one-tenth of a mile using milepost locations and high rail vehicle odometer readings.

Since all calculations are based upon the actual track mileage, these measurements are as accurate as practical. The Kern Valley Railroad Track Profile sheets were important in that the siding at Segundo, tipple tracks at the Picketwire mine and the shop tracks are presented. In addition, I made sketches of these locations to ascertain the track lengths. All tracks removed prior to March 1996 are no longer on the profile.

The following are the major differences between the A&K and my valuations.

Track Length

There appear to be differences between my track length measurements and those of A&K. In its appraisal, A&K states that the main line between mile post 2.0 and mile post 30.00 is 28 miles in length, and that there are 2.52 miles of sidings. My measurements show 28.00 track miles of main line and 3.25 track miles of sidings, tipple tracks and shop tracks.

Rail Weight Changes

Similarly, my findings regarding lengths of the various weights of rail appear to differ from those of A&K.

Adjustments have been made in the length of 115 pound rail to reflect the 119 pound rail laid on one side only, and for the 132 pound laid on both sides. The lengths of frogs and switch points were not deducted from the totals. I walked and visually observed the 1.2 miles (one side of the track only) of 119 pound rail to determine the beginning and end of each string. The locations were related to the nearest mile post and the lengths to the nearest one-tenth of a mile on the odometer of the hi-rail vehicle.

There is a difference in the lengths of 85 pound rail; A&K uses 0.3 miles. My measurements of the M/W track and a short stub (30'), indicates only 0.05 miles. This includes an 85 pound turnout. All 85 pound materials are treated as scrap.

The amounts of all materials, rail, joint bars, ties plates, rail anchors and tie plates, are derived from the track mileage (lineal feet of rail, etc.) and I made every effort to determine these distances as closely as practical. My number of joint bars is based upon the length of main and side track. With regard to anchors, most of the track I observed was anchored every other tie (2 anchors every other tie). This apparently was the Colorado & Wyoming standard to

prevent rail from "running" down hill as a result of braking the loaded trains. The track grade, except for a short level stretch near mile post 9, is all down grade from the mine to Jansen Yard.

Between mile post 2.0 and the end of the line, there are twelve (12) 11-115 pound reusable turnouts and one (1) 85 pound scrap turnout. The A&K appraisal shows 23 115 pound turnouts; this appears to be an error. Perhaps A&K included Jansen Yard turnouts, which are east of mile post 2.0 and therefore should not be included in the valuation.

With regard to crossties, or ties, there is a very high number of reusable ties on this right of way.

Grading Philosophy

With all due respect to A&K and its survey, I do not wholly agree with A&Ks' rail grading philosophy in this case. I feel there is more Class 1 and 2 rail available than is indicated in the A&K appraisal. I have also looked at the "values" placed upon railroad materials by others, that is, Mountain States Contracting (February 24, 2002) and DJJ (March 14, 2002). It is not clear whether either Mountain States, DJJ, or Northwestern Railroad Construction, Inc., which stated its opinion in a March 6, 2002, letter that the net liquidated value is between 2.2 million and 2.5 million dollars, ever looked at the property and performed an

independent assessment. The Mountain States Contracting inventory appears to be the same as that of A&K, except in amount of ballast, which in any case I believe has no net liquidated value.

Also, the amount of reroll rail is questionable. When the cost for removal, loading, transportation and the rerolling process is added, in some cases the economics of the rerolling process is questionable. I have not included any potential for reroll in my valuation.

The evaluation of scrap rail is a judgmental call. Rail in crossings, yard and coal tipple tracks, is especially subject to corrosion that can damage the rail base and stem, making it useless except as scrap. I feel that the survey made on February 14-15, 2002 is fair and as accurate as practical and that it represents very closely the materials available.

The condition valuation difference between my NLV and that of A&K is purely judgmental. I based my judgment on several years' experience in evaluating rail, ties, turnout materials, etc. During my time with C&O and B&O railroads, I literally wrote the Master Inventory Book used by the entire railroad. This included a complete description of the materials. While engaged in this, I often visited the railroad's frog and switch shop, welded rail facility, tie treating plants, track material facilities of other railroads, and track material suppliers, in order to

become familiar with track materials. I also helped create ballast grading sizes and specifications for the railroad's ballast suppliers.

Market Values

The rates offered for usable (relay) rail, railroad scrap and other materials changes from day to day depending on market demand. Premium class 1 and 2 115, 119 and 132 pound rail generally sells for between \$350 and \$475 per ton. Class 1 and 2 115 pound rail is in great demand and brings a good price. I cannot account for the relatively low "unit price" values (especially those for rail and ties) given in the Mountain States Contracting and DJJ estimates. They are not in accord with my findings.

I based the value of second hand crossties on the statements of suppliers and of the chief engineers of two railroads. Good used number 3 and 4 ties to be used in main track sell for between \$10 and \$14 per tie depending upon location. I used \$12 and feel this is a fair price. The current price for number 2 yard ties is between \$5 and \$8 per tie. I used \$8. The current price for number 1 scrap or landscape ties is \$1 to \$2 per tie. I used \$1. I feel these are fair market prices.

Used ballast has little value if any. New ballast, AREMA number 4 and 4.5, granite, screened, washed and loaded in the car sells for \$6 per ton. This does not include freight since that varies depending upon destination. The cost for

picking up ballast, loading it on a truck, transporting it to a railroad loading site and shipping generally results in rates higher than new ballast. In addition, reclaimed ballast is usually contaminated with dirt, mud, vegetation and other debris. Only the first 8 miles of this railroad has ballast that could be reused. This ballast is granite and is a part of the Trinidad Dam relocation, and was placed in 1972. Over that period of time, it has become contaminated. All other ballast on this rail line is a mixture of blast furnace slag, some granite, and mine tailings (a mixture of sand-like material mixed with various pebble-sized stones). Most railroad removal parties usually give ballast to local, county and state agencies for use on unpaved roads, with those agencies responsible for the removal. My opinion is that there is no value in the Kern Valley Railroad ballast.

Liquidation Expenses

I determined a \$10,000 per mile track removal expense after questioning the chief engineers of two regional railroads and two track material dealers. The numbers given to me ranged from \$9,500 to \$11,000 per mile. I chose \$10,000 as a reasonable estimate.

VERIFICATION

I, Kenneth Cotten, declare under penalty of perjury, under the laws of the United States of America, that I have read the foregoing Verified Statement and that its assertions are true and correct to the best of my knowledge, information and belief.

I further declare that I am qualified and authorized to submit this verification on behalf of myself and Robert L. Banks and Associates, Inc. I know that willful misstatements or omissions of material facts constitute Federal criminal violations punishable under 18 U.S.C. 1001 by imprisonment up to five years and fines up to \$10,000 for each offense. Additionally, these misstatements are punishable as perjury under 18 U.S.C. 1621, which provides for fines up to \$2,000 or imprisonment up to five years for each offense.

Dated at Washington, DC, this ~~26~~ day of March 2002.


Kenneth Cotten

Appendix One
Detailed Computational Data

Main Track Rail - 115 pound RE CFI 1950 - 1989 27.21 miles Class 1 and 2 relay at 90 percent 27.21 miles scrap at 10 percent	4,927.43	Net tons	\$	475	\$ 2,340,529
	547.49	Net tons		156	85,408
Main Track Rail - 119 pound RE CFI 1979 1.2 miles Class 1 and 2 relay (one side of track only)	125.66	Net tons		400	50,264
Main Track Rail - 132 pound RE CFI 1982 CWR 0.2 miles Class 1 and 2 relay	46.46	Net tons		475	22,069
Yard Track Rail 3.20 miles - 115 pound CFI 1950-1954, Class 1 and 2 relay, 75% usable 3.20 miles - 115 pound CFI 1950-1954, Class 1 and 2 relay, 25% scrap 0.05 miles - 85 pound, scrap	485.76	Net tons		475	230,736
	161.92	Net tons		156	25,260
	7.48	Net tons		156	1,167
Stock Rail 0.08 miles (11 pair)- 115# 1 pair 85# - scrap	16.19	Net tons		85	1,376
	0.55	Net tons		156	86
Total Value of Rail					\$ 2,756,894
Joint Bars - Main Track 115 RE 24 inch toeless 70 pound drilled 6-7-6 7,522 pair at 90 percent relay 7,522 pair at 10 percent scrap	6,769	Pair		30	203,070
	26	Net tons		85	2,236

Appendix One
Detailed Computational Data

Joint Bars - Side Track and Yards 115 RE 24 inch toeless 70 pound drilled 6-7-6			
403 pair at 80 percent relay	322 Pair	30	9,660
403 pair at 20 percent scrap	2.84 Net tons	85	241
Joint Bars - Main Track 119 RE 36 inch toeless drilled 3.5x6x-6			
162 pair in 1.2 miles relay	162 Pair	32	5,184
Joint Bars - Side Track 85 RE 26 inch toeless drilled 6x6x-6			
60 pair in 0.09 miles scrap	1.35 Net tons	75	101
Total Value of Joint Bars			220,492
Tie Plates			
132# 6 inch base relay 5,800 per mile x .2 miles	1,160 Each	4.25 \$	4,930
115# 5.5 inch base 90 percent relay 5,800 per mile x 31.26 miles	157,905 Each	4	631,620
115# 5.5 inch base 10 percent scrap 5,800 per mile x 31.26 miles at 19.6 pounds each	172 Net tons	85	14,620
119# 5.5 inch base relay 2,900 per mile x 0.60 miles	3,480 Each	4	13,920
85# single side 5.25 inch base relay 2,900 per mile x .05 miles x 7.2 pounds	0.52 Net tons	85	44
Total Value of Tie Plates			685,134
Rail Anchors			
Channeloc 5.5 inch base relay 115 # 2,900 per mile x 31.26 miles	80,765 Each	\$ 0.40 \$	32,306
Channeloc 6 inch base relay 132# full boxed 86 ties x 4	344 Each	0.40	138
Total Rail Anchors			32,444
Turnouts			
11 115# Turnouts including Frog, Switch Points, Ties, Switch Stand	11 Each	\$ 5,500 \$	60,500
1 85# scrap	1 Each	200	200
Total Turnouts			60,700

Appendix One		Detailed Computational Data			
Other Track Material (spikes, bolts, nuts, washers)		250 Net tons	\$100.00	\$25,000	
Ties					
2,900 ties mile x 31.25 miles x 75% #3 & #4		67,969 Each	\$ 12.00	\$ 815,628	
2,900 ties mile x 31.25 miles x 15% #2 YARD		13,594 Each	8.00	108,752	
2,900 ties mile x 31.25 miles x 10% scrap or landscape		9,063 Each	1.00	9,063	
Total Ties					933,443
Ballast - No value					
<u>Gross Value In Place</u>					\$ 4,694,107
Liquidation Expense					
Track Removal of 31.25 miles at \$10,000 mile		31.25 Miles	\$ 10,000	312,500	
Transportation to Jansen Yard				59,000	
Highway crossing restoration		9 Crossings	\$ 2,500	22,500	
Administration & Marketing @ 10 percent of gross value				469,411	
Total liquidation expense					\$ 863,411
<u>Net liquidation value</u>					\$ 3,830,696

Sources: February 14-15, 2002, inspection of property; Progress Rail and L.B. Foster.

ATTACHMENT D

BEFORE THE
SURFACE TRANSPORTATION BOARD
WASHINGTON, DC 20423

STB Docket No. AB-573X

TRINIDAD RAILWAY INC.-ABANDONMENT EXEMPTION-
IN LAS ANIMAS COUNTY, CO

STB Finance Docket No. 33956

KERN VALLEY RAILROAD COMPANY-ACQUISITION AND OPERATION
EXEMPTION-TRINIDAD RAILWAY, INC.

Verified Statement

Of

Timothy J. Gannon

My name is Timothy J. Gannon. I am Director, Financial Analysis at R.L. Banks & Associates Inc. (RLBA), a transportation economics and engineering consulting firm located at 1717 K Street NW, Washington, D.C. 20036. I have been employed by RLBA for the past 21 years. I have previously submitted

testimony to the Interstate Commerce Commission in Finance Docket No. 30300 CSX Corporation - Control - American Commercial Lines, Inc.; Finance Docket No. AB-1 (Sub-No. 219) Chicago and North Western Transportation Company Abandonment From But Not Including Casper Air Base, Wyoming; To and Including Riverton, Wyoming and Finance Docket No. 32549 Burlington Northern, Inc. and The Atchison, Topeka and Santa Fe Railway Company Railroad Control and Merger Application. I have also testified in U.S. District Tax Court on behalf of the Tax Division of the U.S. Department of Justice. A statement of my qualifications is attached to this Verified Statement.

OVERVIEW

In this proceeding I have been asked by Kern Valley Railroad Company (KVR) to calculate the going concern value (GCV) of KVR's line extending from milepost 2 at Jansen, CO to the former new Elk Mine at milepost 30 which is to the east of Stonewall, CO.

In determining the GCV I was requested by counsel to review the Surface Transportation Board (STB) decision in Finance Docket No. 32479, Caddo Antoine and Little Missouri Railroad Company--Feeder Line Acquisition--Arkansas Midland Railroad Company Line Between Gurdon and Birds Mill, AR, served May 5, 2000 and to employ the methodology contained in that decision if appropriate. I have attempted to follow this methodology in computing the GCV of KVR.

KVR is the present owner of the rail line and one of several entities in this proceeding. Other entities involved in the subject property are: Colorado Central Railway Company (CCR), contract operator of the rail line; Lorencito Coal Company, LLC (Lorencito), operator of the mines which is the only KVR shipper; A.P. Maxwell Development Company, LLC, (Maxwell), parent company of Lorencito and; Picketwire Processing Company (Picketwire), also a subsidiary of Maxwell and operator of the coal processing plant served by KVR.

In preparing the estimate of KVR's GCV I reviewed and relied upon several documents provided to me by KVR. These documents are:

Service Agreement between KVR and CCR, dated October 25, 2001
(Service Agreement);

Shipper Agreement between KVR, its agent CCR and Lorencito dated
October 25, 2001 (Shipper Agreement);

Coordination Agreement among KVR, Trinidad, Maxwell, Picketwire and
CCR, dated October 25, 2001 (Coordination Agreement) and;

Draft of Rail Switching Allowance Agreement between KVR and
Burlington Northern, Inc. and The Atchison, Topeka and Santa Fe

Railway Company Railroad (BNSF), effective December 1, 2001 (Switching Agreement).

The estimate of KVR's GCV presented herein is also based upon estimates contained in the concurrently filed Verified Statement of Mr. David J. Shuman of RLBA.

Base Year

The concurrently filed Verified Statement of Mr. Shuman describes the market for Lorecento's coal and arrays the tonnage that he believes will be tendered by KVR. Mr. Shuman projects that Lorecento will tender 640,000 tons of coal to KVR in 2002 which KVR will then interchange to either BNSF or Union Pacific Railroad Company (UP) at Jansen Yard. The annual volume of coal to be tendered to KVR for interchange with either BNSF or UP increases to 1.34 million tons in 2008 and declines to 660,000 tons in years 2017 through 2021. Based upon my review of the tonnage arrayed in Mr. Shuman's projections, I determined that 2005 is the appropriate base year upon which to compute the GCV of KVR.

In 2005 Mr. Shuman projects that Lorecento will tender to KVR 1.14 million tons of coal for interchange with either BNSF or UP. By employing 2005 as the base year, I have selected a year whose volume is not at the upper end of the expected tonnage and approximates the average tonnage, 1.2 million tons, to

be tendered between 2003 and 2012. Utilizing the 1.14 million tons projected to move in 2005, produces a conservative estimate of and represents the average tonnage that can be expected in the first 10 years of operation outside the base year.

Operations

KVR's operations consist of two separate, recurring movements. The first movement is a shuttle train to move coal mined by the Lorencito Coal Company from a loading point at Lorencito, MP 17.3, to the Picketwire facility at MP 28.8 where it is screened and held in a storage bin. The second movement is the periodic movement of empty unit trains that are moved from Jansen Yard to the Picketwire facility, loaded, and returned to Jansen Yard for interchange to BNSF.

The shuttle train movements begin at the loading point adjacent to the main line at MP17.3 where the coal is delivered by truck to a storage pile. A CCR crew brings an empty shuttle train consisting of 15 hopper cars with a locomotive at each end of the consist from the Picketwire cleaning facility at MP 28.8 to the loading point where it is loaded with coal using a front loader. The shuttle train hauls the raw coal to the Picketwire facility to be unloaded, screened as needed and conveyed to a storage silo. The same crew returns the empty train to the raw coal loading point to make another trip. The shuttle train is expected to make two round-trips in a twelve-hour day.

Outbound, clean coal is shipped from the Picketwire facility via unit trains interchanged with BNSF. An empty train is delivered to Jansen Yard, either with or without road locomotives attached. (The agreement between KVR and BNSF permits either arrangement. To this point, CCR has provided most of the locomotives and operating cost estimation assumes that that will continue to be the pattern.) Trains consist of 114 or 115 cars of steel or aluminum construction with a lading capacity of 114.25 tons. A KVR crew using five KVR locomotives moves the empty train from Jansen Yard to Picketwire, where the locomotives run around the train and shove it up the tail track above the loading facility. Once the train is loaded, the same KVR crew returns it to Jansen Yard for subsequent forwarding by BNSF. KVR unit train crews are expected to be on duty for almost the full 12 hours permitted under Hours of Service regulations. It is assumed that all unit train movements will be made under transportation contracts that do not require payment for the use of cars by KVR either through the use of shipper supplied cars or railroad cars made available by either BNSF or UP.

Tonnage

In the base year, 1,393,333 tons of coal would be transported in shuttle trains from the loading point to the Picketwire facility. Table 1 shows the computation of the shuttle train tonnage which reflects the fact that

underground coal in the shuttle train is "dirty" coal prior to cleaning at Picketwire.

The shuttle tonnage would be transported in 929 shuttle trainloads. This could be accomplished by operating two shuttle crews per day, five day per week. Each shuttle train would consist of 15 cars carrying a total of 1,500 tons of coal.

Revenues

Revenues associated with the line are derived from the movement of both the shuttle trains and unit trains and an incentive payment to KVR. I have assumed in the base year that KVR would receive \$1.35 per ton on each ton transported in the shuttle train and \$5,300 per unit train. In addition, I have further assumed that KVR would receive an incentive payment of approximately \$0.55 per ton when unit train tonnage exceeds 1 million tons per year as is the case in the base year. It is my experience and professional judgement that these fees represent reasonable compensation to KVR, \$135 per car for the shuttle train and \$46 per car for the unit train. Table 2 arrays the calculation of revenues that total \$2,419,000

Operating Costs

Estimates of the cost to operate both the shuttle and unit trains were prepared based upon the operations previously described and the current agreement

between CCR and KVR for CCR to operate the shuttle and unit trains on KVR's behalf. The current agreement was indexed to the base year by applying a 1.7% annual increase to the base charges set forth in the Service Agreement. The annual increase of 1.7% was obtained by computing the average rolling 5 year increase in the Rail Cost Adjustment Factor, Unadjusted from 1997 to 2001. The computation of operating costs is shown in Table 3 and total \$1,615,960

Going Concern Value

Subtracting base year expenses of \$1,615,960 from base year revenues of \$2,419,000 yields base year operating income of \$803,140. I then divided operating income by a cost of capital rate of 15%.¹ This yielded a GCV \$5,354,267.

¹ STB Ex Parte No. 558 (Sub-No. 4) Railroad Cost of Capital -- 2000, served July 2, 2001. This decision found that the railroad industry's cost of capital was 11% for the year 2000. Since 11% is the after-tax cost of capital, it was necessary to adjust it to a pre-tax rate that is equal to 15%.

Table 1

KVR Base Year Coal Shipments

Line No.	Description	Source	Amount
1.	Underground coal (clean)	Shuman VS, Table 1	380,000
2.	Cleaning factor	Shuman VS, page 3	0.6
3.	Underground coal to be shuttled	L1 / 2	633,333
4.	Surface coal	Shuman VS	<u>760,000</u>
5.	Total shuttle coal	L3 + L 4	1,393,333

Source: Verified Statement of David. J. Shuman.

Table 2
KVR Base Year Revenues

<u>Line No.</u>	<u>Description</u>	<u>Source</u>	<u>Amount</u>
<u>Shuttle Trains Income</u>			
1.	Rate Per ton	Assumption	\$ 1.35
2.	Tons	Shuman VS	<u>1,393,333</u>
3.	Total Shuttle Train Revenue	L1 * L2	\$1,881,000
<u>Unit train Income</u>			
4.	Revenue Per Train	Assumption	\$ 5,300
5.	Number of Unit trains	Assumption	<u>87</u>
6.	Total Unit Train Revenues	L4 * L5	\$461,100
<u>Incentive Income</u>			
7.	Total unit train tons	Shuman VS	1,140,000
8.	Incentive tons benchmark	Assumption	1,000,000
9.	Tons subject to incentive	L7 - L 8	140,000
10.	Incentive payment per ton	Assumption	\$ 0.55
11	Total Incentive payment	L9 * L10	\$77,000
12	Total Revenue	L3 + L6 + L11	\$2,419,000

Source: Verified Statements of Timothy Gannon and David Shuman.

Table 3
KVR Base Year Operating Costs

Line No.	Description	Source	Amount
	<u>Shuttle Train</u>		
1.	CCR Charge Per Ton	Shuman VS	\$ 0.93
2.	Tonnage	Assumption	<u>1,393,333</u>
3.	Shuttle train charges	L1 * L2	\$1,295,800
4.	<u>Unit Train</u>	Assumption	
5.	Charge per unit train	L1 * L2 * L4 * L5 * L6	\$ 3,680
6.	Number of unit trains	L1 * L3 * L4 * L5 * L6	<u>87</u>
	Unit train Charges		\$ 320,160
7.	Total CCR Charges		\$1,615,960

Sources: Verified Statement of Timothy Gannon; URCS.

Table 4
KVR Going Concern Value

Line No.	Description	Computation	Amount
1.	Revenues	Table 1	\$2,419,000
2.	Expenses	Table 2	<u>1,615,960</u>
3.	Net Revenues	L1 - L2	\$ 803,140
4.	Cost of Capital	STB	0.15
5.	Going Concern Value	L3 / L4	\$5,354,267

Sources: Tables 2 and 3.

Timothy J. Gannon, CPA Director, Financial Analysis

Education

BA Political Science, Pi Gamma Mu business honorary society, Gannon University, 1973

Professional Certifications and Affiliations

Certified Public Accountant, District of Columbia; Member, American Institute of Certified Public Accountants; Member, D.C. Institute of Certified Public Accountants

Years of Transportation Experience

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Qualifications

Since joining the firm in 1980, Mr. Gannon has participated in scores of research projects involving historical and projected transportation costs, revenues, rates and financial performances and analyses of both freight and passenger rail systems, including numerous due diligence assignments and going-concern valuations of existing and prospective short line and regional railroads or individual line segments. Other efforts undertaken on behalf of clients have included developing computer programs to estimate railroad operating expenses as to specific movements, quantify the probable traffic of prospective railroads and measure the economic impact of railroad operations. Mr. Gannon has directed or participated in many assessments of unit train coal and grain movements to utilities and grain elevators in the U.S. and Canada.

Relevant Project Experience

- **Bank of Boston, Bank of Montreal** - Evaluated the reasonableness of financial projections advanced to obtain bank financing of I&M Rail Link. This was accomplished by integrating the findings of several professionals as to the reasonableness of proposed operating, maintenance, fleet adequacy and capital expenditure plans and related cost projections.
- **Central Trust Company** - Directed the financial analysis of the going-concern value of a short line railroad holding company as part of a bank loan review. Detailed analyses of historical and projected financial statements were performed and were used to develop going-concern values of each owned railroad as well as on a consolidated, holding company basis.
- **Berkshire Partners, Toronto Dominion Bank and New York Economic Development Authority** - Evaluated financial aspects of business plans of the Delaware and Hudson Railway Company, Wisconsin Central Ltd. and the Toledo, Peoria and Western Railroad.
- **Maine Department of Transportation** - Examined prospective financial results related to restoration of Boston-Portland rail passenger service. In coordination with Amtrak, estimated operating and capital costs, calculated cash flows, examined available funding mechanisms and developed project financial plan and structure.
- **Horry County (SC)** - Estimated the going-concern value of an existing freight operation and a hypothesized tourist operation between Conway, SC and the Intracoastal Waterway (ICW). The analysis included the financial impact of extending rail service beyond the ICW to Myrtle Beach.

Federal Railroad Administration - Analyzed the likelihood of divested rail lines to be successfully operated as regional or short line railroads. Reviewed projections of revenues and operating costs and examined the prospects of the subject line meeting financial obligations to creditors.

- ***South Orient Railroad*** - Analyzed the financial viability of a segment of the railroad on which abandonment was sought. Prepared financial and traffic exhibits required by STB regulations.
- ***States Rail Corporation*** - Analyzed the financial viability of a segment of the railroad for which abandonment was sought and the compensation offered by protestants. Developed evidence that the amount offered was non-compensatory and did not meet the STB's subsidy regulations.
- ***State of Washington*** - Reviewed the financial return that might be associated with reopening the Stampede Pass Line between Ellensburg and the Columbia River. Performed financial analyses in order to quantify appropriate compensation to the State for the taking of its property by the Army.
- ***NationsBank*** - Prepared the financial analysis concerning the viability of a short line railroad holding company with regard to its proposed refinancing of three properties and two properties it proposed to acquire. This effort included undertaking a detailed analysis of projected financial statements and the preparation of the going-concern value of each railroad.
- ***Intermountain Power Agency (UT)*** - Assisted in the development of rail transportation rates, including estimating several Western railroads' operating and capital costs for the transportation of coal. Prepared an analysis of both the then-current and projected financial position of several trucking companies which might transport coal.
- ***Keystone/Connemaugh Projects (PA)*** - Directed a study that assessed the feasibility of initiating the delivery of large volumes of coal to a coal-fired utility by unit coal train. Prepared an assessment of the likely impact of the movement on the delivering carrier's ability to provide reliable and consistent rail transportation services and projected rail transportation rates.
- ***Monongahela Railway*** - As a contract employee of the railway, developed contract and rate proposals to shippers and connecting railroads, monitored shipper compliance with contract terms and tariffs, and provided other technical assistance to the carrier's managers. Designed computer applications to analyze rail dispatching and operating patterns, and to project rail traffic.
- ***Board of County Commissioners, White Pine County (NV)*** - Participated in the development of rail transportation of coal to a planned generating station in the county. Estimated the cost to acquire and upgrade an existing rail line to efficiently handle coal unit trains, rail operating costs and financial and tax issues.
- ***Gainesville Regional Utilities (FL)*** - Participated in the development of the economic feasibility of utilizing alternative transportation networks to deliver coal to GRU's Deerhaven Electric Generating Station in Hague, Florida. Assisted in the development of alternatives which included construction of a new rail line, rail-to-truck transfer movement and a rail-to-coal slurry combination.
- ***Utilities and Grain Terminals*** - Evaluated railroad unit train rate and service proposals. These analyses quantified the serving railroad's actual investments in asset as well as operating expense associated with the services to assess the reasonableness of proposed transportation rates.

Prior to joining RLBA, Mr. Gannon was employed as a financial manager and an accountant.

Publications and Presentations

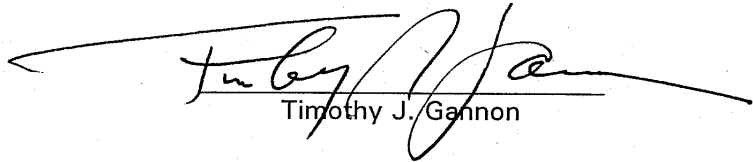
Speaker, Annual Energy Outlook Conference, 1997; "Due Diligence: Business Plan Evaluation," 2nd Canadian Short Line Railroad Conference, Toronto, 1996.

VERIFICATION

I, Timothy J. Gannon, declare under penalty of perjury, under the laws of the United States of America, that I have read the foregoing Verified Statement and that its assertions are true and correct to the best of my knowledge, information and belief.

I further declare that I am qualified and authorized to submit this verification on behalf of myself and Robert L. Banks and Associates, Inc. I know that willful misstatements or omissions of material facts constitute Federal criminal violations punishable under 18 U.S.C. 1001 by imprisonment up to five years and fines up to \$10,000 for each offense. Additionally, these misstatements are punishable as perjury under 18 U.S.C. 1621, which provides for fines up to \$2,000 or imprisonment up to five years for each offense.

Dated at Washington, DC, this ^{26th} day of March 2002.


Timothy J. Gannon

ATTACHMENT E



Landreth Engineering, LLC

P. O. Box 92156 --- Albuquerque, New Mexico 87199
Cellular: 505 - 239 - 9915 --- Email: EVWLandreth@aol.com

March 13, 2002

Mr. Michael J. Van Wagenen, Vice President
Kern Valley Railroad Company
P. O. Box 26421
Salt Lake City, UT 84126

Subject: Appraisal of Kern Valley Railroad

Dear Mr. Van Wagenen,

I have appraised the Kern Valley Railroad (KVR) between railroad milepost 2 and end of track at railroad milepost 30. The KVR is a short line railroad providing service to Lorencito Coal Company, LLC (Lorencito) near Weston, CO and connecting with the Burlington Northern Santa Fe Railroad and the Union Pacific Railroad at Trinidad, CO. At this time, Lorencito is the primary rail customer on the rail line and has entered into a transportation agreement with the KVR.

This appraisal is based on a visual inspection of the rail line on September 25, 2001, the information furnished with your letters of September 21, 2001 and October 2, 2001, review of the existing operating and transportation agreements furnished with Mr. John Doane's letter of December 26, 2001, and the coal production schedule prepared by Lorencito furnished with Mr. Morris Kulmer's transmittal of January 5, 2002.

It is my opinion that the KVR has a present value of \$22,701,000.00 and if offered for sale on the open market would have an expected sales price in the range of \$9,000,000.00 to \$17,000,000.00. This value is dependent on the coal production scheduled being met by Lorencito Coal Co. LLC.

Attached in support of my appraisal is summary of my work sheets.

If I can provide any additional information or clarification concerning this appraisal please contact me.

Sincerely,

Edward W. Landreth, PE

Landreth Engineering, LLC
P. O. Box 92156
Albuquerque, NM 87199

March 13, 2002

Value of Kern Valley Railroad

Kern Valley Rail Road
MP 2.0 to MP 30
Hyrrail Trip 9/25/01

Non Operating Railroad Assets

Main Line Rail Salvage Value
(Value Includes Removal Expenses)

	\$/Ton	Total Tons	Value
74 Tangent Rail	440	881.27	\$387,758.80
51 Tangent Rail	425	2421.59	\$1,029,175.75
Curve Rail < 1 Deg	420	143.70	\$60,353.65
Curve Rail 1 Deg	410	451.30	\$185,031.94
Curve Rail 2 Deg	400	536.31	\$214,525.34
Curve Rail 3 Deg	350	323.81	\$113,334.14
Curve Rail 4 Deg	285	287.40	\$81,908.53
Curve Rail >5 Deg	260	621.33	\$161,545.62
		5666.71	\$2,233,633.78
			\$2,233,633.78

Main Line Other Track Material (OTM)
(Value Includes Removal Expenses)

Unit	Quantities	\$/Unit	Value
Angle Bars	15168	8.750	\$132,723.36
Bolts	458	4,000	\$1,833.22
Washers	45490	0.006	\$272.94
Tie Plates	182000	1.790	\$325,779.84
Track Spikes	1582	4,000	\$6,327.55
Rail Anchors	121303	0.270	\$32,751.73
			\$499,688.64

Main Line Cross Ties (28 Miles)
(Value Includes Removal Expenses)

Unit	Quantities	\$/Unit	Value
Relay	3640.00	\$7.00	\$25,480.00
Landscape No. 1	34580.00	\$3.50	\$121,030.00
Landscape No. 2	39130.00	\$2.00	\$78,260.00
Scrap	13650.00	-\$1.00	-\$13,650.00
			\$211,120.00

Main Line Ballast (In Place Value)

Ballast	Ton	100000.00	\$1.50	\$150,000.00
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Side Tracks (Value Includes Removal Expenses)

No. 10 Switch	Each	6.00	\$4,710.00	\$28,260.00
No. 8 Switch	Each	11.00	\$4,217.00	\$46,387.00
Side Track	Mile	2.52	\$71,620.24	\$180,483.00
				\$255,130.00

Rail Road Property (Unknown Title)

Note: Value Not Used for Net Liquidation Value Due to Unknown Title
Easement Value of Property- Utilized by On-Going Rail Business

28 Miles @ 100' Width	Acres	339.39	\$1,500.00	\$509,085.00
Additional at Stations	Acres	12.00	\$1,500.00	\$18,000.00

\$527,085.00

Loan Value of Asset (Net Liquidation Value-Non Operating Railroad Assets)

\$3,349,572.42

Replacement Value of Asset (Material Only)

\$5,465,200.00

Replacement Value of Main Track on existing Roadbed (Labor & Material Only)

\$10,157,300.00

Operating Railroad Assets

Rail Service Contract Through July 2010

Net Present Value of Guaranteed Basic Service Contract

Annual Contribution \$1,033,680.00 (I=3%, n=8 Years)

\$7,256,120.00

Loan Value of Asset (Operating Railroad Assets)

\$11,132,777.42

Net Present Value of Additional Revenue Forecast by Major Shipper

Annual Contribution \$1,647,970.00 (I=3%, n=8 Years)

\$11,568,239.00

Present Value of Asset (Based on Business Levels Forecast by Major Shipper)

\$22,701,016.42

Range of Expected Sale Price as an Operating Railroad Asset

Sale Price of Non Operating Railroad Assets plus Three Times Net Annual Revenue

\$11,921,600.00

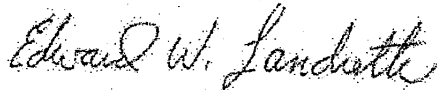
Sale Price of Non Operating Railroad Assets plus Five Times Net Annual Revenue

\$17,284,900.00

VERIFICATION

I, Edward W. Landreth, a professional engineer declare under penalty of perjury, under the laws of the United States of America, that I have prepared the attached valuation analysis for the net liquidation value and going concern value for the Kern Valley Railroad. The net liquidation value and going concern values are true and correct to the best of my knowledge, information and belief. I further declare that I am qualified and authorized to submit this verification on behalf of myself. I know that willful misstatements or omissions of material facts constitute Federal criminal violations punishable under 18 U.S.C. 1001 by imprisonment up to five years and fines up to \$10,000 for each offense. Additionally, these misstatements are punishable as perjury under 18 U.S.C. 1621, which provides for fines up to \$2,000 or imprisonment up to five years for each offense.

Dated at Albuquerque, NM, this 20th day of March 2002.



Edward W. Landreth, PE

ATTACHMENT F



MOUNTAIN STATES CONTRACTING

6813 W. FRIER DRIVE
GLENDALE, ARIZONA 85303-1312
(623) 842-0743 FAX (623) 842-0944
(800) 827-0743

March 20, 2002

Hon. Vernon A Williams
Secretary
SURFACE TRANSPORTATION BOARD
1925 K Street, NW
7th Floor
Washington, DC 20423-0001

RE: STB Docket AB-No. 573,
Trinidad Railway, Inc. – Abandonment Exemption

STB Finance Docket No. 33956 Kern Valley Railroad Company –
Lease and Operation. Exemption – Trinidad Railways, Inc.

Exhibit L of the Request on the behalf of Rail Ventures, Inc.
To Establish Terms and Conditions of Sale. Letter to John
Reed of Rail Ventures, LLC, Dated February 24, 2002

Dear Secretary Williams:

We submitted the above referenced letter to John Reed but did so without a clear understanding as to it's purpose. I should point out that we neither inspected the railroad line in question, nor did I realize that Mr. Reed would be submitting my letter to the Surface Transportation Board for the purposes of appraising the Net Liquidation Value of the line.

We were asked by Mr. Reed to provide him with the value for the railroad track materials based on information, which Mr. Reed submitted to us. We based our prices on what we are willing to pay for like material, keeping our prices fairly conservative, since we had not inspected the material.

If you have any questions or comments please free to contact our office.

Sincerely,

Vern Van de Loo
President

CC: John Reed – Rail Ventures
Fritz Kahn – Atty. KVR

RAILROAD TRACKS ENGINEERED, BUILT AND REPAIRED