



**CARVER
LUMBER**

8700 N. UNIVERSITY AVE.
PEORIA, ILLINOIS 61615
(309) 692-2000 • FAX (309) 693-7919



July 19, 2006

Vernon A. Williams, Secretary
Surface Transportation Board
Case Control Unit, Suite 713
1925 K Street, N.W.
Washington, DC 20423-0001

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Public Record

RE: Docket No. AB-1066X (Kellar Branch Discontinuance of Service Exemption-
Peoria, IL)

STB Docket No. AB-878

217146

217148

Dear Mr. Williams:

This letter is in response to your order to Carver Lumber "to file comments with the Board at the conclusion of the 90-day period regarding service via the new western connection" as referenced in the Docket proceedings referenced above.

For brevity of this letter I have enclosed copies of previous pertinent documents which will document Carver Lumber Company's concerns and position relevant to this issue.

In this letter I will focus exclusively on the current issues relevant to your findings and order on April 25, 2005 that "these proceedings will be held in abeyance to permit additional assessment of the situation and for further development of the record."

Specifically, we reference the last sentence in paragraph 3 of our January 18, 2006 letter, attached, to you which states; "If it is found that such service and/or cost has been substantially compromised, we would expect our rights to access the full Kellar line to have somehow been preserved for the benefit of our company and any other shippers who may one day locate on the line." Our findings and beliefs as of this date are as follows:

- While rail service to Carver is now available via the Western Connection our strong belief is that that service is inadequate to the exemplary service we have received from PIRY for many years via the Kellar Branch and that this view is supported by the actual tracking of cars arriving in Peoria and their subsequent delivery to Carver as summarized in the attached RAIL CAR ROUTING SCORECARD. As you can see the SCORECARD clearly shows in detail that after cars arrive in Peoria they take either another 4 or 8 days to arrive at our facility. Our understanding

is that this is the result of CIRY only providing service to Carver two days per week. For years our records show that delivery up the Kellar Branch Line took between 1 and 2 days to reach our facility. Thus the delivery time of cars via the Western Connection represents a **400% greater** delivery time than cars delivered via the Kellar Branch Line.

- The cost of cars delivered to Carver via the Western Connection (Union Pacific/CIRY), based upon the newly published UP rates dated May 31, 2006 of \$1100, attached, plus fuel surcharges of \$181.50 plus the CIRY charge of \$650 totals \$1,931.50. The cost of the same car delivered to Carver via the Kellar Branch (TZPR/CIRY) is \$940.00. The cost of the same car delivered to Carver via the Kellar Branch (TZPR/PIRY) is \$872.00. Thus, the delivery of cars via the Western Connection is approximately **105% greater** than the cost of the same car delivered via the Kellar Branch using CIRY and approximately **121% greater** than the cost of the same car delivered via the Kellar Line using PIRY.
- While this item is not specifically requested in your order “regarding the adequacy of rail service” we believe it is pertinent to the issue of Carver’s rights to “have a vested interest in making sure that delivery to our business over that line (Kellar) is made available (Carver’s letter to you of January 18, 2006). As I believe the STB knows, service to Carver via the Kellar Branch was interrupted due a CIRY runaway/derailment/collision during their first delivery attempt to Carver forcing us to transload material for a period of nearly 5 months (see our letter of February 6, 2006 to City of Peoria, attached) resulting in costs to date of \$41,605.10 which neither the City or CIRY have been willing to reimburse. We are currently seeking the aid of independent legal counsel in an effort to collect these costs. The federal court case of New York Cross Harbor Railroad v. Surface Transportation Board, 374 F.3d 1177 (D.C. Cir. Ct. App. 2004) also recognizes that the “Surface Transportation Board (has a) statutory duty to preserve and promote continued rail service, and that one of its functions is to provide the public with a degree of protection against the unnecessary discontinuance, cessation, interruption, or obstruction of available rail service.” Given the regulations set forth above we believe the City of Peoria is obligated to provide Carver Lumber with sufficient rail service, and that the disruption in rail service experienced by Carver Lumber should be compensable.
- Carver has had direct access to eight line-haul carriers over the Kellar Branch Line via the TZPR (the local terminal switching carrier) for many years. The loss of service over the Kellar Branch will permanently deprive Carver Lumber of competitive service, by depriving us of direct access to CN, BNSF, ISIA, NS, I&M, KJRY and TP&W, and leaving us with only one line-haul carrier (UP), that will have ultimate control over our service and delivered cost of material. Currently, approximately 75% of our cars originate on CN, and 25% on BNSF. Forcing us to depend on the “western connection” will add another carrier to all of our shipments, which has resulted in, and will continue to result in, longer transit times,

less responsive service, and higher rates. We become a captive shipper. Depending on business conditions, we receive 50 or more cars per year. At a premium of approximately \$1,000 per car (see bullet 2 above) that results in at least a \$50,000 hit to our bottom line that for a company of our size is almost catastrophic. If the Kellar Branch is abandoned, that premium can only be expected to increase, as there will no longer be any option to restrain rate increases, and, as a small shipper, we have no bargaining power.

- Carver Lumber Company is a local 100% employee owned business that is competing with much larger companies who have considerable purchasing power. Carver is heavily dependent upon rail service to remain cost competitive and the loss of the Kellar Branch Line is clearly going to put Carver at a significant competitive disadvantage with its competitors and thus unduly threaten the livelihood of 50 employees.
- Carver Lumber has recently attempted to route two cars to our location using the Kellar Branch via BNSF PEORIA TZPR PEORIA CIRY (car #NOKL 734824 B/L L-104859, attached) and CN PEORIA CIRY (car CN 598024 B/L 1175453, attached) both of which were delivered via the Western Connection via UP without our knowledge or consent. Information I received today from TZPR was that the CIRY “would not accept” the cars for Kellar Branch Line delivery and told TZPR to hand the cars off to the UP. We do not understand why we are being denied rail service via the cheaper Kellar Branch line and ask you for your assistance in this matter. It is our understanding that the Kellar Branch Line is in full compliance with all relevant Federal regulations for this type of rail line. Please see our letter of April 17, 2006 to the City of Peoria, page 3 **DELIVERY RATE COMPARISONS**, attached.
- Carver Lumber has tried to work with both the City of Peoria (CIRY) and the Union Pacific to address the issue of guarantying minimum levels of service and rate stability to no avail. These are critical issues to a company of our size, especially as we have had a long established track record with PIRY on both of these issues. Under the Western Connection scenario we have neither. The PIRY has submitted a proposal to Carver Lumber whereby both the issue of levels of service and rates are being guaranteed for a period of 10 years which greatly surpass the service conditions and rates that we are currently experiencing over the Western Connection.

Carver Lumber Company needs and desires competitive and timely rail service to protect the livelihood of our employee/owners. The Western Connection is not, in our opinion, succeeding on either of those issues. In light of recent industry articles addressing the increased congestion on the UP mainline it would seem to us that maintaining the Kellar Branch Line makes good sense. Trucking and/or transloading material is not only cost prohibitive for Carver Lumber, but seems to be contrary to public policy in general as the impact on the environment (fuel consumption, air pollution and deterioration of the infrastructure) to move goods by truck is significantly greater than that of moving goods

by rail. In light of the fact that Carver is a willing customer of rail service and there exists a willing carrier (PIRY) to provide that service, we cannot imagine how the public good will be served by forcing Carver Lumber Company to switch from affordable rail service which has satisfied our needs for many years to more expensive trucking service.

In conclusion, based upon the statements in the above bullet points we respectfully request the STB to consider the following course of action:

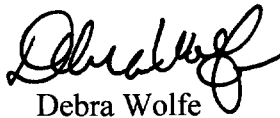
Given CIRY's demonstrated inability, and stated unwillingness, to provide service over the Kellar Branch, we believe the Board should reopen and deny the adverse discontinuance of PIRY service over the Kellar Branch (and grant CIRY's request to discontinue service), or, in the alternative, in order to preserve service on the Kellar Branch, deny the discontinuance of CIRY service over the Kellar Branch and order CIRY to comply with its common carrier obligations to provide such service. In the interim we request that the Board enter an alternative service order permitting PIRY to provide service to the Kellar Branch.

Carver appreciates the Board's consideration of this matter, and its prompt action to reopen this proceeding in response to our request. The Board's concern for the preservation of viable rail service has been very important to Carver Lumber, its employee/owners, suppliers and customers.

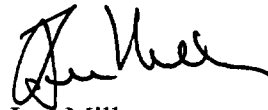
Sincerely,
Carver Lumber Company Board of Directors



Mark Booth



Debra Wolfe



Lee Miller

Enclosures

January 18, 2006

Vernon A. Williams, Secretary
Surface Transportation Board
Case Control Unit, Suite 713
1925 K Street, N.W.
Washington, DC 20423-0001



**CARVER
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8700 N. UNIVERSITY AVE.
PEORIA, ILLINOIS 61615
(309) 692-2000 • FAX (309) 693-7919



RE: Docket No. AB-1066X (Kellar Branch Discontinuance of Service Exemption – Peoria, IL.)

Dear Mr. Williams:

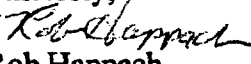
I am in receipt of a copy of Mr. Thomas McFarland's letter to you of January 11, 2006. Carver Lumber Company appreciates the City's restatement of their promise not to remove any trackage from the Kellar Line "...until the City certifies to completion of the track connection" (from the West). We also appreciate CIRY's willingness to delay any consummation of its discontinuance authority until the City is successful in having their contractor complete the new Western connection with the Union Pacific Railroad's secondary line.

Mr. McFarland's same letter makes reference to his objection to PRY's January 9, 2006 "Petition for Stay" regarding the original STB decision of December 23, 2005. While there are reasons why it is not prudent for us to inject ourselves into any dispute between parties regarding PRY's claim of authority to operate over the Kellar Line, we do have a vested interest in making sure that delivery to our business over that line is made available to our company *until such time as the proposed alternate service from the West has been tested and found to meet our business needs*. While it is noteworthy that Mr. McFarland's letter does offer assurances regarding the positive intentions of both the City and CIRY, it also seems to imply that so long as the connection to the West is made and "...alternative rail service is available", the City has fulfilled its obligation to our company. If that indeed is Mr. McFarland's understanding of the situation, we respectfully disagree. In our letter to you of January 3, 2006 we stated our concerns about logistical challenges associated with proposed service from the West. We do not see that by simply connecting two tracks and making it possible for train operation across a new line assures that meaningful and/or affordable service will automatically follow, at least not without additional agreements I understand the City desires from the U.P.

Therefore, we reiterate to you and all interested parties that our position on this matter remains essentially unchanged from several years ago when the notion of turning a portion of the Kellar Line into a hiking/biking trail began to be discussed in earnest. We strongly support a new connection to the West but have always felt it should be *tested* over a reasonable amount of time to insure that service in the manner we have come to depend on in the past is not somehow compromised. If it is found that such service and/or cost has been substantially compromised, we would expect our rights to access the full Kellar Line to have somehow been preserved for the benefit of our company and any other shippers who may one day locate on the line.

We are not knowledgeable regarding all of the intricacies associated with PRY's "Petition for Stay", nor are we familiar with what options the STB might have at its disposal as an alternative that might help us attain our stated goals. Absent any such alternative options from the STB, or absent a strong written agreement with the City regarding a commitment to allow any new service from the West to be thoroughly tested prior to proceeding with a discontinuance, it would seem logical for a "Petition for Stay" to be given consideration if the Board feels it provides the best and strongest form of insurance that the full Kellar Line will remain available to us (open and operational, once repaired) while the new connection is given a fair test. We leave this matter in your capable hands and thank you for your time.

Sincerely,


Rob Hoppach
President / CEO

CC: Randall Ray; Thomas McFarland; Melinda Sammons (all via fax)

Rob Happach

From: <PRPRICE@UP.COM>
To: <rhappach@carverlumber.com>
Cc: "Lee Miller" <lmiller@carverlumber.com>; "Richard E Carver" <richardecarver@aol.com>; "Steve Van Winkle" <SVanWinkle@ci.peoria.il.us>
Sent: Wednesday, May 31, 2006 4:38 PM
Attach: pic18467.jpg
Subject: Tariff change

Rob,

We have completed your request to publish a rate for your Peoria to Peoria move via the UP. You can refer to the rate change below and if you have any questions please feel free to contact me.

(Embedded image moved to file: pic18467.jpg)

-Thank you and have Great Day!

Paul R. Price

Marketing and Sales | Lumber Account Representative

Phone 402.544.5908 | Fax 800.544.4162 | Customer Service 800.272.8777

PRPrice@up.com | www.uprr.com

Union Pacific Railroad | 1400 Douglas St. STOP 1320 | Omaha, NE 68179

Register for UPRR | Price Inquiry | Fuel Surcharge | Service Information |
Car Trace

6/5/2006

If the links above are not active you may find the same pages through the exact addresses below:

Register for UPRR

<http://c02.my.uprr.com/crr/crrServlet.jas>

Price Inquiry

http://www.uprr.com/customers/price_inquiry.shtml

Fuel Surcharge

<http://www.uprr.com/customers/surcharge/index.shtml>

Service Information

<http://www.uprr.com/customers/updates/index.shtml>

Car Trace

<https://c01.my.uprr.com/wet/secure/TraceForm.jas?trace=trace>

UP 24 Item 2059

Current Peoria, IL to Peoria, IL Grp Rates

Rate	Car type
\$2,144	Equipment length between 40' and 53'
\$2,454	Equipment length up to 67'
\$1,829	STD CTB
\$1,975	HC CTB

CHANGE TO:

UP 24 Item 2059

Revised Peoria, IL to Peoria, IL Grp Rates

Rate	Car type
\$900	Equipment length between 40' and 53'
\$1,100	Equipment length up to 67'
\$1,100	STD CTB
\$1,250	HC CTB

April 17, 2006



**CARVER
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8700 N. UNIVERSITY AVE.
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To: Steve Van Winkle
Director of Public Works
City of Peoria

From: Robert Happach, Pres/CEO
Carver Lumber Company
Peoria, IL.

RE: Conclusions on rail service to our company
Pricing and Service Issues
Possible remedies for Improvement

Dear Steve:

Thanks once again for your patience. I realize that the status of that section of the Kellar Line earmarked for a trail brings with it a sense of urgency to issues concerning future action. I know you realize the complexity of this situation and how extraordinarily difficult it has been to obtain solid information on rates due to the confidential nature of freight contracts. Realizing that everyone is anxious to know how the new system is working out for our company, I am offering my very best effort regarding the situation as I see it today. Please also see the attachments that will provide some additional support to parts of this document: (1) a railcar delivery "scorecard" for shipments since the Western Connection was officially opened; (2) a comparative schedule on rate options for Carver Lumber with facts as of this writing; (3) Copy of a U.P. freight bill to our supplier (PAL).

I believe in general that this report supports the notion that the Western Connection project is a "work in progress", rather than being considered "completed" by virtue of two sets of rails being connected. Towards that end our company is prepared to continue operating as a good-faith partner in an effort to see if this project can be completed to the satisfaction of all interested parties.

THE UNION PACIFIC RAILROAD (U.P.):

- Throughout the U.S. and Canada, our suppliers tell us that the U.P. in general appears to have a well-earned reputation at the mill level for being difficult to work with and apparently disinterested in moving forest products through their system in line-haul fashion. How this affects the attitudes of local U.P. management and/or the rates that are being tossed about for local "car moves" is unknown to me. I'm told U.P. rates for the line haul are often not competitive against a BN or a CN haul (oddly in my pricing from PAL for Riley Creek stock, the UP and BN rates are the same....must be Riley's particular contract).
- Locally, they appear to have been very consistent for several years in their attitude regarding their role in servicing a Western connection. They would apparently rather not do it for several reasons: (1) It's low volume and more trouble than it's worth; (2) The "J" track arrangement at the Pioneer Junction (instead of the "wye" that was planned for originally) is not very compatible with the equipment they use locally (it takes two U.P. locomotives to make a "car drop"); (3) The track radius works well enough for moving boxcars, but not well for moving the larger center-beam lumber cars, which make up a significant part of our car traffic (over 50% since the opening of the Western Connection).
- They have been highly resistant to offering "trackage rights" over their local line. Such rights as given to a CIRY, for example, would allow the U.P. to stay uninvolved in the actual car handling, much to their liking. However, I am told that access to this local U.P. line is "spotty" (eg: sometimes train crews "time out", and by law must simply stop wherever that occurs) and that having reliable access to their tracks would be

difficult to accomplish. I'm told it would require extensive communication and coordination, all for moving one or two cars per trip. While I'm sure there are also safety and liability issues to consider, another big sticking point with them is the traffic that would need to pass through their own yard in order to make it out to the Pioneer Junction. As I understand it, the CIRY would need to do just that in order to get to the TZPR yard for non-U.P cars, or to pick up U.P.direct cars out of their yard. I will comment on "trackage rights" later in my report.

- **The U.P. is not legally required to "publish a rate"** for their portion of the handling from downtown out to the Pioneer Junction. Supposedly they are required to disclose the rates, but no one I've been working with has been able to make much meaningful progress on that. It has been suggested that if they were to go ahead and publish their rates, suppliers and freight logistic companies would have little trouble putting a final "hard number" cost to Carver shipments. Absent a published rate for a specific haul, I am told that one must rely on the general tariff rates as shown on their website, which shows four categories of rates for lumber products (under Item 2059-A of UP 24-C): These rates range from a low of \$1,829 to a high of \$2,454. Obviously this kind of per-car rate structure for moving freight the last 10 miles to the Pioneer Junction is unworkable for our situation. A professional logistics firm (Raven Logistics) that was consulting to PAL (our buying group), on this issue indeed came back to them with a rate "in the range of \$2,000" for moving a car from downtown Peoria to the Pioneer Junction. Additionally, PAL received and paid a freight bill from the U.P. for bringing a Carver car from Chicago to Peoria this past January (see attachment to this E-mail). The bill was for \$1,693, roughly three times (on a per mile basis) what it has historically cost us to move cars from the Pacific Northwest to our door. Thus this extra cost ends up being a 100% "addor" to what we have paid in the past.
- The U.P intends to make car handoffs at the Pioneer Junction only twice per week (Mondays and Wednesdays) compared to five (5) day per week service we had been getting from the PRY over the old Kellar Line, even when we were the only customer left on the line. We do understand the reasons for the U.P.'s decision, given the low volume involved and the physical difficulties they have trying to make handoffs at the Pioneer Junction as it is currently designed. Additionally, it is not as easy for the CIRY to send a crew in from Granville, IL. compared to past short-line operators having local people available. We are not totally happy about receiving deliveries only twice a week, but we're willing to make the adjustment in the hopes that the other "kinks" in this new connection will somehow offset the reduced service issue.

In Conclusion on the Union Pacific: Disappointingly, but not surprisingly, until there are some changes forced on the U.P, or unless new evidence is produced to the contrary, it is hard to view the U.P. as anything more than a very reluctant partner in the Western Connection project. I'm sure you can appreciate our concern about the long term viability of the U.P. regarding service, and especially cost. It seems that the easy way out of a business arrangement that they have little use for would be to simply price themselves out of contention, which absent a reasonable published rate, they seem to be doing. In fairness to the U.P. I will say that I've been told that at least some of their rate people in Omaha are not even aware of our local situation or what it takes to develop a rate. As a result, they may be having difficulty providing reliable rates and could simply be falling back on the published general tariffs I mentioned earlier. In any case, resolving all of these important issues with the U.P. seems very crucial to the overall success of this new connection. It is our hope that the City of Peoria can accomplish what needs to be done to make it work and to meet the expectations that we have all long held as important to the process.

THE CENTRAL ILLINOIS RAILROAD COMPANY (CIRY):

To date we have found the CIRY to be a reliable partner, especially considering the fact they do not have much of a local presence. Ray Fuchs, their Manager of Railroad Operations, has made a real effort to be accessible to me by cell phone, to answer our questions and to delve into matters in order to help us better understand the challenges we face with this new connection. When cars are finally dropped at the Pioneer Junction by the U.P., (which we do not always get dates and times for) the CIRY crew seems to have made a very conscious effort to complete the delivery to our yard within a reasonable time frame, all things considered.

As you know, there is a significant remaining issue that may or may not involve the CIRY: After a derailment on the old Kellar Line during their very first delivery attempt to us (likely caused not by the condition of the track, but by their use of an under-powered TrackMobile), the CIRY refused to deliver cars over that line, preferring to wait for the completion of the new Western Connection. In part, this was due to the fact their adequately powered locomotive was essentially "trapped" on the Western side where it had been placed in anticipation of a quick completion of the Western Connection. At any rate, Carver Lumber was told that there would be about a 3-4 week delay in direct rail service while construction of the Western Connection was completed. It turned out to be 22 weeks before service was restored via the Western Connection. The delay was not really due to the work being done on the new track, but to delays associated with the City's project to upgrade remaining parts of the old line. One could argue it was no fault of the CIRY that the City's project rendered the line inaccessible, or one could argue that the CIRY had no authority to abandon service to us over the old Kellar Line in the first place. The result thus far has been over \$60,000 of additional expense to Carver Lumber through no fault of its own. This issue must be fully resolved so as not to delay the progress we hope to make in completing the overall project. We encourage the City to take the lead in establishing a dialogue between interested parties.

DELIVERY RATE COMPARISONS:

I would like to start by saying that we regarded the most potent test of rates to come as a result of having PAL price out some cars of lumber to us comparing total delivered cost via the Western Connection with total delivered cost over the old Kellar Line (via TZPR switch to CIRY). However, our suppliers were unable to price cars over the old Kellar Line. First, we were told by Ray Fuchs of CIRY that the line had recently failed a government track inspection and it was illegal for CIRY to be out on the line (I took this to mean that the government had taken the line out of service). Later, the TZPR reported to us that the line was "down" because PRY had apparently filed an "Embargo" on the line when they left (I have been told this is a common practice among railroads when they leave a line in order to protect them from car-hire and/or re-routing charges). I have asked both the CIRY and the PRY for explanations. I have yet to receive a reply from the CIRY but PRY has checked with the FRA in Washington, D.C. and they show the line as "open" and not in any way unusable by the CIRY. They have no record of a failed track inspection report and the embargo was limited to PRY deliveries only. We intend to further understand the reasons for not being able to obtain a rate, correct them, and then in the interest of fairness, test the pricing up both sides once and for all.

Please see the rate spreadsheet attachment, which shows that rates via the Western Connection (under conditions as they stand today) fall far short of being able to fulfill the assurances that were originally given to us, or of meeting the goals or expectations of the City of Peoria, I'm sure. Obviously this area is in need of some major work. While we can understand why some people look at this spreadsheet and feel that our company should go ahead and trans-load our product through the TZPR (the best rate as shown), some important facts need to be addressed:

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- The City has already spent well over \$2,000,000 of taxpayer funds to build the Western Connection. How will that sit with the public if the line is basically abandoned without ever really getting off the ground? Most people will likely ask why some of the "deal-breaker" issues were not resolved prior to spending the funds.
- Direct rail service is very important to our company. It is a highly desirable component of any high-volume lumber yard and the loss of it would reduce our options for delivery (trans-loading being the only remaining option). It would also lower the prestige of our company in the eyes of our customers and competitors, and also could lower the value of our property. Being located in an industrial park and being designed and built as a single-use facility (material distribution) demands viable direct rail service be maintained.
- Our company was given assurances of having reliable, *affordable* direct rail service from the West in order to garner our support for rail-banking our only alternative (the Kellar Line), so a trail could be built in its place. We are not asking for one thing that we were not promised. In fact, we are accepting a 60% reduction in delivery frequency (5 days to 2) that was never discussed originally and certainly not anticipated by our company.
- The TZPR price includes a third-party handler, who may or may not be interested in trans-loading later.

DELIVERY PERFORMANCE:

- Please see the attached spreadsheet ("scorecard"), which details the movements of 8 cars that have been received by our business since the opening of the Western Connection. When you look at column "D" (Routing) you will notice that 5 of the cars were delivered over the new connection while 3 others were delivered to Amerhart without using the new connection. The first Amerhart delivery occurred because the car was unable to be re-routed over the Western Connection. The other two Amerhart deliveries were intentional as a way to compare service and because our buying group (PAL) received rates over the Western Connection that added \$1,475 to the delivered cost of each car, net of Amerhart's trans-loading charges. These added costs were attributed by PAL to the Union Pacific's short haul rate out to the Pioneer Junction.
- If we do not count the first delivery attempt (which had some problems getting off the ground), on average cars that were routed via the U.P.- CIRY Western Connection sat idle in Peoria for 50% longer than cars being delivered to Amerhart by the U.P. (see column "I" of the spreadsheet, which I believe is the critical number). Some of this delay can be attributed to the 2-day per week U.P. delivery schedule service for Carver Lumber versus unbroken service by the U.P. to Amerhart. But in the end, it still took 2.5 days longer, on average, to receive our material over the Western Connection.
- As you can see from column "G" of the spreadsheet, the time it takes for a railcar to arrive in Peoria from the various mill locations can vary widely, even when the shipments come from the same mill. Taking 15-18 days to arrive Peoria makes the short-line service all the more critical from a time standpoint.

IDEAS TO GENERATE BETTER SERVICE AND RATES OVER THE WESTERN CONNECTION:

While we commend the CIRY for their service to us to date, and understand that a contract does exist between the City and the CIRY, it is impossible to ignore another, possibly better, long-term solution to the service (logistical) issues, and more importantly, the rate issues. Obviously these ideas have been floated by others for a while now:

- The Keokuk Railroad has a local railyard just South of Bartonville. They already have trackage rights in place that allow them to go directly to the TZPR switching yard to pick up cars. If the Union Pacific can be persuaded to give the Keokuk trackage rights over their line, then the Keokuk could conceivably pick up ALL of our cars at the TZPR, take them a short distance to their yard for further switching and deliver them directly to our door without any further need to enter the U.P. yard or use the problematic "J" at the Pioneer Junction. The fact that the Keokuk is owned by the PRY is certain to raise the ire of some, but it should be communicated to them that President/CEO Guy Brenkman has retired from the PRY and moved from the area. PRY's new president, Michael Carr, seems very capable, entirely reasonable and desirous of mending fences as needed. How this option is viewed in light of the contract the City has with the CIRY is unknown to us.
- Send a contingent of high-ranking City officials, along with Ray LaHood, to the Union Pacific headquarters in Omaha with the goal of:
 - (1) Obtaining a commitment to allow trackage rights over their line for short-line delivery use by others
 - (2) Absent that being possible, secure an agreement to provide timely service at a reasonable rate
 - (3) Then get them to agree to publish the rate in order to take the guesswork out of it for everyone
 - (4) Reaffirm their commitment to help the City of Peoria market Growth Cell II to high-volume rail users

When back home, further coordinate that marketing effort with a re-energized City Economic Development Department. Then when a high-volume user is secured, use that substantially increased car traffic as a lever to lower the rail rates to the benefit of all who might use the Western Connection.

Steve, I hope you find this report to be helpful. I will continue to try different strategies as they are developed regarding rates and will also continue my "scorecard" in terms of tracking delivery times. Our company remains committed to doing our part on improving the situation over the Western Connection. We also appreciate the opportunity to share our views on this project from the business perspective, with all due respect to those who would very much like to see the regional hiking-biking trail finally completed.

Thanks again for all your hard work. Please let us know how we can help further and please let me know how much, if any, of this report you would consider releasing to other parties who have an interest. For example, I know that the Recreational Trail Advocates are aware of my promise to generate a report to the City, but I will make it clear to them that out of courtesy to you, the decision to share part or all of it is yours to make as you see fit.

Sincerely,

Robert E. Happach
President/CEO

RAIL CAR ROUTING SCORECARD

RAIL CAR ROUTING SCORECARD									
CAR# - TYPE	SHIPPER	ROUTING	date	ARRIVAL DATE PEORIA	days car in transit	Delivery Date	addn'l days car in town	Total days	
Bold-face cars #s		() indicates "intermediate" carrier whose initials will not show up in the routing from the originator.	car left	2		CARVER			
Indicate those sent via Western connection:			mill				until final delivery	car in system	
1) TTZX84700 - c-beam	Riley Creek- Chilco, ID	supposed to have been changed to UP - CIRY for carver delivery from original routing of UP for Amerhart delivery.	16-Feb 3/2 UP Peoria 3/3 TZPR 3/10 UP 4:30 AM (7 days lost unnecessarily)	15	15-Mar	14	29		
2) HS 3185 - boxcar	Grant - Ontario, CAN	CN-(TZPR)-UP carver	27-Feb TZPR 3/7 8:30 PM UP - 3/10 4:30 AM	9	17-Mar	10	19		
3) BCOL-60384 - boxcar	Grant - Ontario, CAN	CN(TZPR)-UP carver	18-Feb TZPR 3/8 9:08 PM UP - 3/10 4:30 AM	18	16-Mar	8	26		
4) DWCC-626787 - c-beam	Abitibi - B.C. CAN	BN-(TZPR)-UP Amerhart	8-Mar UP - 3/20	12	3/24 Amerhart	4	16		
5) CN-558221 -boxcar	Grant - Ontario, CAN	CN(TZPR)-UP(CIRY)-carver	12-Mar to TZPR 3/22 10:40 PM to UP 3/23 11:00 PM	10	30-Mar	8	18		
6) CN 558351 - boxcar	Tolco	CN (UP)- CIRY -carver(no TZPR?)	16-Mar TZPR showed no record	estim 10	3-Apr estim 8	16			
7) CN 624553 -center bm	Abitibi	CN-(TZPR) UP- Amerhart	27-Mar at TZPR 4/3 (bad ordered) on repair track at TZPR rel. to UP 4/9 PM	7	11-Apr (via Amerhart)	8	15		
8) BNSF- 561769 - c. bm	Abitibi	BN-(TZPR) UP- Amerhart	23-Mar to TZPR 3/28 10:55 AM to UP 3/28 6:55 PM	5	3/31 Amerhart	3	8		

4/11/2006

HOW TO POSSIBLY CIRCUMVENT UP FREIGHT ADDERS TO MOVES ASSOCIATED WITH THE PIONEER JUNCTION:

AT THIS POINT IT WAS DECIDED THAT POSSIBLY BY LEAVING THE UP OUT OF THE ROUTING AND JUST SHOWING THE LINE-HAUL CARRIER AND THE CIRY, THE LINE-HAUL CARRIERS JUST MIGHT ABSORB ANY REASONABLE CHARGES FROM THE U.P. FOR THEIR PORTION. HOWEVER, THERE IS THE CHANCE THAT THE LINE-HAUL CARRIERS WILL ATTEMPT TO COLLECT ON THE UP CHARGES FROM THE BUYER (CARVER THROUGH THE PAL BUYING GROUP), OR WILL SIMPLY ADJUST THE OLD RATES UPWARD TO TAKE THE UP CHARGES INTO ACCOUNT. THE HIGHER THE UP CHARGES, THE MORE LIKELY THAT CARVER WILL END UP PAYING THAT EXTRA FREIGHT COST IN SOME FORM OR ANOTHER. ONE VERY GOOD EXAMPLE OF THIS WAS A CN SHIPMENT THAT REQUIRED THE UP TO BRING THE CAR THE LAST 160 MILES FROM CHICAGO TO PEORIA. THIS "MOVE" BY THE UP HAD BEEN DONE MANY TIMES IN THE PAST WITH THE CN APPARENTLY ABSORBING THE COST. HOWEVER, LATE THIS PAST JANUARY PAL RECEIVED A \$1,700 INVOICE FROM THE UP FOR THAT SAME MOVE. PAL PAID THE BILL WITHOUT PROTEST, FEARING THAT PROTESTING MIGHT CAUSE THE UP TO LOOK BACK ON PAST MOVES AND TRY AND COLLECT FOR THOSE ALSO. THE POINT IS THIS: THIS BILL MAY HAVE FOUND ITS WAY BACK TO PAL BECAUSE THE CN REFUSED TO ABSORB IT. PERHAPS DUE TO THE LARGE AMOUNT FOR SUCH A SHORT HAUL. IF THE UP ENDS UP SENDING BIG BILLS BACK TO THE LINE-HAUL CARRIERS FOR SHORT MOVES, EVENTUALLY THOSE BILLS ARE GOING TO FIND THEIR WAY BACK TO CARVER, EITHER DIRECTLY OR MORE LIKELY, BY

VIRTUE OF THE LINE-HAUL CARRIERS SIMPLY MAKING THE ADJUSTMENT IN THEIR FREIGHT RATES TO CARVER IF INDEED THEY PLAN TO PAY THE UP DIRECTLY FOR THEIR SERVICES. SINCE THIS JANUARY BILL TO PAL (I HAVE ATTACHED A COPY FROM PAL TO THE E-MAIL ACCOMPANYING THIS REPORT) COULD BE A PRECURSOR TO HOW THE U.P. INTENDS TO HANDLE THIS SITUATION IN THE FUTURE, THERE IS CAUSE FOR CONCERN HERE. IT IS OUR UNDERSTANDING FROM PAL THAT OUR VARIOUS SUPPLIERS WILL INFORM THEM IF THERE ARE ANY RATE INCREASES AS A RESULT OF THE UP "PILING ON". UNFORTUNATELY, THESE THINGS TAKE TIME TO WORK THEIR WAY THROUGH THE VARIOUS SYSTEMS AND TRAFFIC DEPARTMENTS INVOLVED. BILLS FOR ADDITIONAL SERVICES CAN JUST "POP UP" HERE AND THERE ALONG THE WAY AND IT MAY TAKE THE PLACEMENT OF ADDITIONAL ORDERS WITH THE SUPPLIERS INVOLVED UNTIL SUCH TIME AS THE TRUE FREIGHT COSTS ARE REALIZED BY ALL CONCERNED AND WORKED INTO THE OVERALL MIX.

4/18/06 - Carver report on effects of the new western connection, including this scorecard and a rate comparison, were delivered to Steve Van Winkle

9)	CN-598024- boxcar	Grant - Ontario, CAN	CN (TZPR - UP) CIRY for Carver	25-Mar to TZPR 4/1 at 5:00 PM to UP 4/2 11:30 PM	8	4/6/2006 2:00	4	12
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10)	CN 598036- boxcar	Grant - Ontario, CAN	CN (TZPR - UP) CIRY for Carver	11-Apr 4/20 1:45 AM @ TZPR 4/24 AM to UP 4/27 to CIRY	9	28-Apr	8	17
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11)	CN 625967- center bm	Abitibi - BC, CAN	CN (TZPR - UP) CIRY for Carver	12-Apr to TZPR 4/24 PM to UP 4/25 PM	12	4/28 to Amerhart U.P. ERROR!	4	16
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Regarding these next 3 carloads, which were all purchased on the same day, and all with BN origin, the BN priced the freight the same for delivery to Amerhart (for reloading at about \$1,000 additional cost) as for delivery to Carver via the CIRY (with UP doing the handoff). We'll have to wait and see if the UP sends an additional charge to someone for their involvement.

NOTE: New information 4/20/06 per PAL: ICC regs allow railroads to bill for services up to 24 months after those services have been rendered. PAL is currently disputing a CX freight bill just received (\$1,200) for a car movement that took place 19 months ago.

Correction: I have now learned that RR have up to 36 months to back-bill for services - and often wait until the last minute to do so.

12)	(car numbers pending) NOKL 733971 - ctr b	Abitibi	BN (TZPR - UP) CIRY for Carver	26-Apr				
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13)	CNA 623677- center b	Abitibi	BN (TZPR - UP) CIRY for Carver	14-Apr to TZPR 4/24 11 PM to UP 4/26				
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14)	BNSF 562555 - ctr b	Riley Creek	BN (TZPR - UP) CIRY for Carver	26-Apr	10	28-Apr	4	14
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15)	HS 3247	Grant	CN (TZPR-UP) CIRY for Carver	20-Apr to TZPR 4/27 to UP 4/28 to CIRY 5/1	7	5-May	8	15
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06/26/2006

RILEY CREEK LUMBER

B/L # L-104859

Shipper	RILEY CREEK LUMBER	LACLEDE	ID
Consignee	P A L CO-OP INC	GRAND RAPIDS	MI 49518
	PO BOX 823		
Care of	M.S. CARVER LUMBER	PEORIA	IL
Third Party Pay	RILEY CREEK LUMBER	LACLEDE	ID 83841
	PO BOX 220		
Rule 11	P.A.L. CO-OP	GRAND RAPIDS	MI 49518
	PO BOX 823		

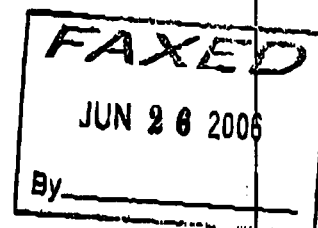
Origin:	LACLEDE	ID	Prepared by:	CARRIE KING
Destination:	PEORIA	IL	Phone Number:	208-265-6524
Sec 7 (Y/N):	No			
Freight Charges:	"To Be Prepaid"		Patron Code:	

Route: BNSF PEORI TZPR PEORI CRIY
Origin Switch Road: POVA Junction Delivery Switch Road:
Rule 11 (Y/N): Yes
Contract (#) #: BNSF-BNSFQ105355
LBR TIMBER, DRID 2421184 Loaded 1 Carload Agreement Weights
LOGS Permit: LF52152

Net Weights
196,300 Pounds

LOADED 6-26-06

INIT NUMBER	WEIGHT	SEALS	DUNNAGE REFERENCE
NOKL 734824	196300		0



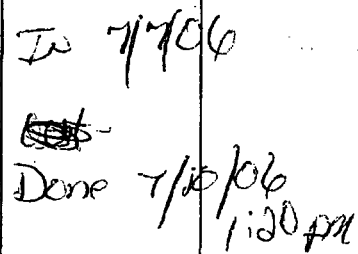
STATUS: Accepted w/Errors-824 Date: 06/26/2006 Time: 15:29 CST WAYBILL #: 819356



Grant Forest Products Sales Inc.
2233 Argentia Road, Suite 104
Mississauga, Ontario L5N 2X7

Page 1 of 1

SHIPPER/ORIGIN GRANT FOREST PRODUCTS SALES INC. HIGHWAY 11 NORTH P.O. BOX 960 Englehart ON POJ 1H0	SHIPPING DATE	GFPC ORDER NUMBER
	06/06/24	1175453
	CUSTOMER ORDER NUMBER	BILL OF LADING NUMBER
	F8106	1175453
	CUSTOMS BROKER	CAR/TRUCK NUMBER
SOLD TO Progressive Affiliated Lumbermen Co-op 1 2480-44th St. S.E., P.O. Box 823 Vendor Code: 7943GRT IRS# 38-0285365 Grand Rapids MI 49518-0823 United States	TRANS AMERICAN	CN598024
	ROUTE	
	ONT NBAY CN (PEORI-CIRY DELY) CN24401	
	CARRIER	GROSS WEIGHT
	RAIL	80782.746 KG 178,093.6420 LBS
CONSIGNEE & DESTINATION MS Carver Lumber Co -CIRY Del PHYSICAL ADDRESS: 8700 N. Universit RailHead: Peoria IL 61605 United States	PREPAID FREIGHT	
	FREIGHT TO POINT OF ENTRY	U.S. DOLLARS
	TOTAL FREIGHT TO DESTINATION	U.S. DOLLARS
SEAL NOS: 502508,502507		
VOLUME 150.464 M3		

NO OF PACKAGES	DESCRIPTION OF SHIPMENT	QUANTITY MSF/FT	UNIT PRICE	AMOUNT
22	112 7/16" OSB Rtd. Shtg. 24/16 90 Panels per Bundle 4x8	63.3600		
23	132 1/2" OSB Rtd. Shtg. 32/16 78 Panels per Bundle 4x8	57.4080		
				

DELIVERY INSTRUCTIONS PREPAID FREIGHT

SHOW PO# 9272-4

REBILL OVER Rail

UNLOAD FROM PLACARDED SIDE

PROVINCE OF ORIGIN - ONTARIO

MADE IN CANADA O S B - ORIENTED STRANDED BOARD

HST: 4410.21.0000

THE ABOVE PRICE INCLUDES FREIGHT AND ALL U.S. CUSTOMS RELATED CHARGES. TERMS 1 % 10 DAYS A.D.I

CONFIRMED / LOADED BY

SHIPMENTS TO US DESTINATIONS ALL AMOUNTS IN US \$

SIGNATURE SHIPPER _____

CARRIER / DRIVER _____

RECEIVER _____

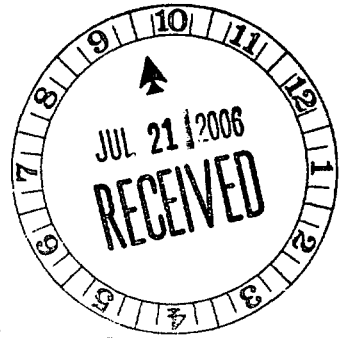
(905) 858 3200

February 6, 2006



**CARVER
LUMBER**

8700 N. UNIVERSITY AVE.
PEORIA, ILLINOIS 61615
(309) 692-2000 • FAX (309) 693-7919



City of Peoria

419 Fulton

Suite 200

Attn. Mr. Randall Ray

Peoria, IL. 61602

RE: Rail-to-Truck Reloading

Dear Randy:

Last November when we met in Steve Van Winkle's office, one topic of discussion was the fact that our company, due to an interruption of direct rail service, was forced to reroute our railcars to Amerhart, Ltd. for reloading and delivery to our yard by truck. You might recall that this interruption was initiated as a result of CIRY's derailment during their first delivery attempt, likely caused by using an under-powered "Trackmobile" instead of a standard locomotive to haul two cars up a rather steep grade near the Vine Street hill area. During the derailment "cleanup process" I had several discussions with CIRY's Allen Brown, who attempted to blame the derailment on bad track conditions (simply not true), and as such, was unwilling to risk further attempts to use the line. He decided that the best course of action for CIRY would be to wait for the completion of the Western connection, which he stated would be done "within 2-3 weeks". Mr. Brown admitted that CIRY created a problem for themselves (and us) by temporarily placing their locomotive on the West side of University St. in anticipation of a quick connection to the UP. He went on to say that to reverse that move and put the locomotive to the Kellar side would be very costly and time-consuming, and also impractical if needed for only a couple of weeks. Therefore, Carver Lumber agreed to make other arrangements (with Amerhart as a re-load) that were anticipated to be very temporary in nature, lasting only until early October when service from the West would be available. As we know, the City was unable to make the connection to the West within the expected time frame, but does now appear to be close to finishing the needed work. We have recently assisted in expediting this process by allowing the City's contractor to use our yard and rail spur at no charge to funnel their equipment to those sections still needing attention. We have, and will remain, supportive of the City's efforts to complete a quality rail connection to the West, so that the hiking/biking trail project can finally be launched for the anticipated betterment of our community.

That leaves us with an unresolved and significant financial issue: The extra cost that our company continues to incur for having our rail cars re-loaded at Amerhart. What was supposed to be a 3-week delay has stretched to nearly 5 months and has cost our company over \$34,000 to date. When I brought this subject up at our November meeting at City Hall, both you and Steve suggested that we should look to CIRY for reimbursement, so I called them shortly thereafter. Their position is that they were prevented from rendering us service for most of the time period in question because the City had their contractor tear out a critical section of the line and the repair portion of the project subsequently experienced a lengthy and unexpected delay. While it seems their point is well taken, they did abandon their responsibilities in the early weeks by refusing to use the Kellar line any longer. In any case, I feel that is for CIRY and the City to work out, and I would prefer that reimbursement to our company not be held hostage to a long, drawn out legal battle between you two parties, if it comes to that. I fairness to the City, I did mention to Steve early on in the reload process that things were going smoothly with Amerhart and that I expected some offsets in rail freight costs as a result of having no short-line carrier in the chain. Had that been true, in theory we could have allowed the reload process to go on almost indefinitely. But as my past correspondence to you indicated (substantiated by a letter from Jeff Parish of the PAL buying group), due to the way rail rates are constructed and paid, there is an extra cost to Carver Lumber for bypassing a short-line delivering carrier and trucking it off the UP line from Amerhart's yard. We finally were able to piece that fact together after about the second or third delivery to Amerhart. Once we realized the true facts, encouraging CIRY to restore direct service to us became a big priority. Unfortunately for all of us, the significant delay in completing the construction work for the connection (Metropex contract)

Page 2

significant delay in completing the construction work for the connection (Metroplex contract) has brought us to this point today. In closing, your assistance on helping resolve this issue will be greatly appreciated, as these reloading fees are having a large impact on our bottom line. We are more than anxious to realize complete financial recovery for our shareholders, as well as seeing our direct rail service re-established as soon as possible, and we are willing to assist in any way we can.

Thanks in advance for your help and advice. Please feel free to call me at 692-2004 if you would like to discuss this further. Otherwise I will look for a timely and thoughtful written response. Please feel free to e-mail that response to rhappach@carverlumber.com if you prefer.

Sincerely,

A handwritten signature in black ink, appearing to read "Rob Happach". The signature is fluid and cursive, with the first name "Rob" being more prominent than the last name "Happach".

**Rob Happach
President / CEO**