



# Office of the Commissioner of Railroads

2 2/2/0  
1/27

610 N Whitney Way  
P.O. Box 8968  
Madison, WI 53708-8968

Rodney W Kreunen, Commissioner

Tel (608) 266-7607  
Fax (608) 261-8220  
TTY (608) 267-1479  
Website ocr.wi.gov

**Vernon A. Williams, Secretary**  
**Surface Transportation Board**  
**395 E Street, SW**

(Via Priority Mail)

**Washington, D. C. 20423-0001 18 December 2007**

**RE: Canadian National Railway Co. and Grand Trunk Corporation**  
**Control - E J & E Company (STB Finance Docket #35087)**

**Dear Mr. Williams:**

**Let me introduce myself. I am Rodney W. Kreunen, Wisconsin's Railroad Commissioner. I am in my 12th year and we have the statutory control over the 4,117 public CRXs in Wisconsin. Our function is to ensure the public and the railroad's safety at these CRXs.**

- 1) We do this thru an ongoing physical on-site examination, and a cautious review of the records. In many case, we ride w/crews and see what they see at their operating speeds. (Their views are very valuable, as they cover these routes frequently.)**
- 2) We have a major ongoing program to identify those CRXs that could be good candidates for closure. (See the attached laminated chart on how we work thru these. Many times it takes several years, many local meetings. The Class is now know the need for economic incentives to help the local municipalities. We can then match them up to \$7,500)**
- 3) We have very limited Federal (\$2.7 million) and State (\$1.7 million) that we selectively and carefully parcel out for signalization upgrades. We work very closely w/RR's signal staff on how/why/where these should be installed. As the needs are so great with the increasing rail traffic volumes, and we have such restricted funds, we have instituted 'Corridor Safety Enhancement' programs. We work closely w/RR staff to identify the greatest safety needs, and the potential closures. Several of the Class is are working with us on cost sharing to achieve these results (The BNSF will share 50/50 on new or upgraded installation expenses. The UPRR does an 80/20 cost sharing, with a maximum of \$120M for OCR where we have identified potential CRX closures. The CPRR has worked many different costs shares w/OCR and is moving towards the cost share programs we have setup w/BNSF and thru UPRR. The CNRR on limited occasions has worked w/us, thru their US Vice-President, Gordon Trafton, we expect to see the same co-operation as we have had w/BNSF and the UPRR. He is very safety conscious.)**
- 4) Over the past decade, we have seen rail traffic steadily increase, and congestion or 'choke points' develop. These cause blockages, delays for local traffic, both commercial and emergency vehicles. This is most acute on the former Wisconsin Central, now owned by the Canadian National. For over a decade, we have worked w/them on siding extensions, CRX closures, grade separations, and have improved their 'traffic fluidity' some. However, due to the congestion generated in the Chicago area, we can do nothing. If the CNRR is ever going to be a better working railroad in/thru Wisconsin, the log jam thru Chicago has to be addressed.**

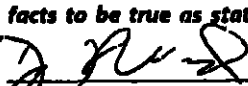
**Because of these many factors, we strongly support the CNRR's acquisition and upgrades of the EJ&E to move rail traffic around Chicago to connect with their Illinois Central Division. If oil prices continue to rise past \$100/barrel, this will only continue the trend for more container and general merchandise traffic to the railroads. That issue alone would further highlight the need for the CNRR's acquisition of the EJ&E. I see this as a good move for Wisconsin and the Midwest.**

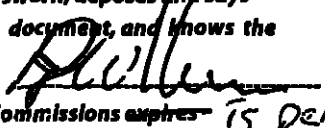
**FORWARD**

  
**Rodney W. Kreunen**  
Wisconsin Railroad Commissioner

Verification

State of Wisconsin - Dane County  
I, Rodney W. Kreunen, being duly sworn, deposes and says  
the he has created and read the document, and knows the  
facts to be true as stated

  
Notary Public

  
My Commissions expires

15 perennit

# The place to be is ENERGY

**I**T PROBABLY COMES as no surprise that the price of a share of stock in an oil company is closely tied to the price of a barrel of oil itself. For example, at the end of 1998, Occidental Petroleum

(symbol OXY) traded at \$6.47 a share, adjusted for splits. At the beginning of July, Oxy was at \$59—roughly a nine-fold increase. Over the same period, the global average price of crude oil, according to the Energy Information Administration, rose from \$9.48 to \$68, which means roughly a sevenfold increase.

**Upside advantage.** Occidental makes most of its money in oil exploration and production, or E&P. In energy jargon, it is mainly an upstream business. A company such as ExxonMobil, by contrast, has substantial upstream *and* downstream operations. As an integrated firm, Exxon extracts oil, distributes it through tankers and pipelines, refines it, and sells it to businesses and the public.

As a result, Exxon, BP, Shell and other integrated companies benefit less than E&P firms when oil prices soar. The upstream side of the business does well, but downstream, high oil prices raise costs for wholesalers and dampen demand by consumers. Ultimately, stock prices reflect this. Since 1998, Exxon shares have little more than doubled. BP stock has gone from \$45 to \$74.

Of course, if you own shares in an integrated oil company, you get a relatively smooth ride. According to *Value Line Investment Survey*, Exxon, BP, Chevron and most other integrated firms are less volatile than the market as a whole. Such stocks also pay nice dividends. Since 1991, Chevron's dividend has gone from 81 cents to \$2.32 a share, rising every year. So if you're looking for stability, buy big integrated oil. But if you believe energy prices will stay high, then the place to be is exploration and production.

As E&P stocks go, Oxy is pretty tame. Parallel Petroleum (PLL) has risen 15-fold since the depths of the late 1990s. Chesapeake Energy (CHK) has soared from less than a dollar



## OPENING SHOT

**“Higher oil prices are coming. The case for global growth and political turmoil is too compelling.”**

at the end of 1998 to more than \$35 in mid 2007.

But investors care about the future, not the past. E&P shares have risen with the prices of oil and natural gas (I'll get to that later), as well as with increased efficiency and greater unit sales. But will prices remain at their current levels, or perhaps even increase?

Yes, says Wayne Andrews, a managing director at Raymond James & Associates, who has a sparkling record as an analyst. In a report issued in early July, he and his colleagues say they are “thoroughly bullish on both oil and gas long term.” Andrews forecasts \$70 a barrel for oil at the end of 2008. He ranks Occidental, which gets 78% of its revenues from producing crude oil, a strong buy. Ditto Parallel and Bels d'Arc Energy (BDE), both much smaller companies with market caps of about \$1 billion.

He also gives a top rating to EV Energy Partners (EVEP), which trades as a limited partnership on Nasdaq.

Andrews's reasoning is straightforward. First, OPEC, the 11-nation oil cartel that is responsible for about two-fifths of the world's oil production and two-thirds of its proven reserves, “has conviction to support a \$60 oil price,” which provides a reassuring floor for investors. OPEC alone can't determine prices; it was helpless in the face of past sharp declines, not only in the late 1990s but also during the recessions of 1991 and 2001. Still, OPEC members no longer believe that prices in the \$60 range will slow global growth, and intentionally or not, their production has been falling. Non-OPEC oil production is also slowing considerably; Mexico's peaked in 2004, Russia's in 2003.

Worldwide boom. Moreover, the global economy is booming. No nation of decent size is in economic distress at present.

*James K. Glassman is a senior fellow at the American Enterprise Institute and editor of its magazine, The American*

The business cycle has not been repealed, of course, but economic management—especially monetary stewardship and tax policy—has improved all over the world. “India and China,” says Andrews, “are just entering the industrialization phase. Currently, the two countries consume two barrels of oil per capita each year—less than 100 gallons. By contrast, South Korea and Japan consume about 15 barrels, and the U.S., 25 barrels. South Korea nearly quadrupled its per-person oil use between the mid 1980s and mid 1990s. If you assume that India and China will merely double their consumption, you still come up with a huge jump in demand.

Finally, look at geopolitics. Effective sanctions or military action against Iran, the second-largest oil producer in OPEC, would almost certainly slash production and push global oil prices higher—at least in the short term.

#### A question of value.

These are cogent justifications, but how novel are they? Is knowledge of sluggish supply and rising demand already built into today's prices, for both oil and stocks? A top executive with one giant integrated company told me he thinks that oil today carries a geopolitical premium of \$20 a barrel. In other words, the investors, speculators, businesses and consumers who set oil prices expect disruptions in Iran, Nigeria, Russia, Saudi Arabia, Venezuela or some other unstable energy-producing nation, and their fears are reflected in the price. So, one assumes, is the likelihood of another bad hurricane in the Gulf of Mexico.

Andrews's price forecasts are on the high side. But many analysts foresee the same lofty ranges reached a few years ago. The more clever, contrarian investor may think that oil prices have peaked and will start dropping—because of slowing global growth, a more-benign picture of geopolitical risk and rising supply gained through new technology. In that case, the right move would be to short E&P stocks or buy shares in companies, such as airlines, that benefit enormously from lower fuel costs (although airlines would also suffer in an economic downturn).

My own view is that higher oil prices are coming, mainly because the case for global growth and political turmoil is too compelling. But an even better bet than oil producers such as Oxy may be natural-gas producers such as Chesapeake and Cabot Oil & Gas (COG), both of which are rated

“outperform” by Raymond James. Although that may seem a lukewarm endorsement, Andrews says it reflects worries that natural-gas prices will fall because this summer's heat has been fairly moderate, allowing reserves to build. “Gas likes cold winters and hot summers,” he says, and buying shares in natural-gas producers is, in the short term, a wager on weather. Longer term, however, there is a lot to like about gas.

For one thing, gas is nearly a closed system. We make our

own in the U.S. and import very little (other than from Canada) because we have few liquefied natural-gas terminals and are unlikely to build many more. So, foreign supplies of natural gas don't enter into the equation.

And today, Andrews points out, there is a disparity between oil and natural-gas prices. Normally the ratio of the price of a barrel of oil to that of 1,000 cubic feet of natural gas is six to one, or, at most, seven to one. That is the relationship based on the energy each source generates. Today,

however, the ratio is ten to one. Because Andrews doesn't expect oil prices to drop, the route to reconciliation is a rise in gas prices. He is projecting natural gas delivered at the Henry Hub, in Louisiana, to be \$7.08 at the end of 2007 and \$10 at the end of 2008—a huge increase.

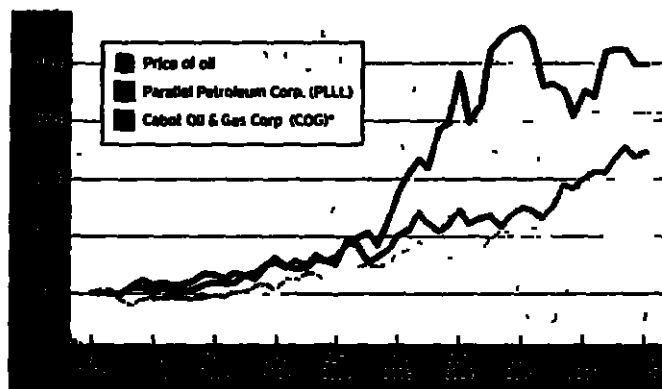
What about alternative energy? That's a subject for another column. Just recognize that for the next few decades at least, oil, gas and coal will be by far the primary resources for global economic growth.

**Smart additions.** Along with stocks such as Oxy and Chesapeake, a wise investor's portfolio should include at least one integrated oil company, an exchange-traded fund such as United States Oil Fund (USO), shares of which directly reflect the price of West Texas Intermediate light, sweet crude, and a mutual fund such as Fidelity Select Natural Gas (FSNGX), which has returned an annualized 17% over the past ten years.

The final reason to own energy stocks is to hedge your bets. As gasoline and home-heating costs rise, you can at least have the small satisfaction that your E&P shares are probably rising, too. ◀

#### Oil prices rise sharply. Big gains as oil rallies

**P**arallel Petroleum's stock has soared eightfold since January 2003, while Cabot Oil & Gas has made a considerable gain, up more than fourfold during the same period.



Data to July 2, January 2003 prices equal 100. \*Adjusted for splits and dividends. Sources: U.S. Energy Information Administration, Yahoo.

## THE WORLD IN NUMBERS

The world's most essential oil field may be in decline.

# Running Dry?

BY JAMES D. HAMILTON

No country is more important to oil markets than Saudi Arabia. The kingdom produced roughly 9.2 million barrels of crude a day in 2006, and accounted for 19 percent of world oil exports. Many analysts expect it to supply a quarter of the world's added production over the next few years. And as the only producer with significant excess capacity, it has played a crucial role in alleviating temporary supply disruptions, increasing daily production by 3.1 million barrels during the first Gulf War, for example, when oil production in Iraq and Kuwait dropped by 5.3 million barrels.

The Ghawar oil field is the kingdom's crown jewel. Stretching for more than 150 miles beneath the desert, it is the largest known deposit in the world. It produces perhaps twice as much oil as any other field, and has doubtless accounted for more than half of Saudi Arabia's oil production. Yet the Saudis have been removing oil from this reservoir for half a century. Sooner or later, its production must fall.

The Saudis do not release data on how much oil they are extracting from individual wells, or on the remaining reserves of individual oil fields. But the total amount that the kingdom produces has been declining, down a million barrels a day over the last two years of data.

The Saudis have claimed these cuts have been in response to weak demand. However, the big drop in production began in the spring of 2006, when the price of oil was rising from \$60 to \$74 a barrel; the claim that no one wanted to buy Saudi Arabia's light crude strains credulity. The drop in production has also coincided with a huge new Saudi

effort to find and pump more oil. The number of active oil rigs in Saudi Arabia has tripled over the past three years.

Frustrated by the lack of hard data on Ghawar, Stuart Stanford, a computer scientist with a doctorate in physics, has conducted a painstaking study of publicly available information. His research has been reported at the oil drum.com, a Web site that analyzes energy markets.

The Saudis have developed Ghawar by using peripheral water injection—water is pumped into the reservoir, driving the remaining oil to the surface. More details about Saudi production were available before 1980, allowing Stanford to infer that the depth of the remaining oil column in northern Ghawar at that time was about 500 feet. Evidence from many sources suggests that the water level has been rising at about 18.4 feet per year. If you extrapolate that trend, this would mean that the northern part of Ghawar is by now quite depleted.

Stanford has also built a detailed computer simulation of the Ghawar reservoir, based on its size and shape, the porosity and permeability of its rock, and the assumed oil-extraction rates. The results of this simulation line up remarkably well with Stanford's other calculations. Oil production from northern Ghawar has likely peaked.

Southern Ghawar still holds a lot of oil, and perhaps the kingdom's push to find new fields will bear fruit. But northern Ghawar was developed first because it was by far the most promising field. Its production cannot be easily replaced. At about the same time that Saudi production began its decline, the new Haradh project in southern Ghawar began producing perhaps an additional 300,000 barrels a day. The Saudis have also made

a huge investment to reopen the Qatif field on the eastern coast, which they had abandoned in 1996; it is now producing an estimated half-million barrels a day. With Saudi production falling despite these new contributions, the situation could be serious.

At a bare minimum, the era when excess Saudi capacity could cushion geopolitical disruptions in oil supplies may well be over, even though the threat of such disruptions is greater than ever. And if Saudi production continues to decline even as world demand keeps growing, in a few years we will look back at the summer of 2007 as the last of the days when gasoline—even at \$3.50 a gallon—was still plentiful and cheap. ■

James D. Hamilton is a professor of economics at the University of California, San Diego. His analysis appears regularly at [www.econbrowser.com](http://www.econbrowser.com)



PHOTO COURTESY OF THE U.S. DEPARTMENT OF ENERGY. MAP ADAPTED FROM ANALYSIS BY STUART STANFORD

INSIDE SCOOP ■ by Teresa Rivas

## Warren Buffett: Train Buff

**M**ORE SHARES OF BURLINGTON NORTHERN SANTA FE ARE ROLLING into Omaha, Neb., as Warren Buffett continues to snap up stock of the Fort Worth, Texas-based railroad. On Wednesday, the Berkshire Hathaway chief exercised call options to purchase 7,847,818 shares, the latest in a string of his investments over the past two months in the nation's second-largest railroad, after Union Pacific.

Since Aug. 8, Berkshire Hathaway and its subsidiaries have exercised options and made outright purchases of 30 million Burlington shares (ticker: BNT) totaling \$1.73 billion.

Of that amount, 14 million shares were direct purchases, totaling \$1.12 billion, or an average of 79.48 a share, the latest transaction on Sept. 20.

Shares acquired through options totaled 15.7 million, or \$617.2 million, at an average of 39.35 a share.

Buffett now indirectly owns 60,828,818 Burlington shares through Berkshire Hathaway (BRK.A and BRK.B) and its subsidiaries, representing a 17.2% stake in the company. He began building his position in late 2006, but did not reach the 10% threshold of ownership until April, when his position was announced, sending the stock to highs not seen in nearly a decade.

Berkshire didn't have anyone available to comment on the purchases.

Burlington didn't return phone calls seeking comment.

Analysts surveyed by Thomson Financial, on average, rate Burlington a Buy or the equivalent, with a mean 12-month target price of 94. Although over the summer Burlington descended from highs after Buffett's ownership disclosure, the stock still has a year-to-date gain of 17.6%, just trailing its peers in the Dow Jones Railroad Index, which is up 19.2%.

"Buffett is a long-term, value investor, who doesn't get into fads," says Ben Silverman, director of Research at InsiderScore.com. "He realizes that the economy is cyclical and housing is cyclical, and with a multiyear investment horizon, he's not going to be concerned on a quarter-to-quarter basis. What he is looking for is when the stock hits an inflection point that makes it a good buy. And, earlier in the year, railroad stocks were really slumping, with [price-to-earnings ratios] well below the historic P/E ratios they normally trade at."

However, while Buffett was buying, Burlington insiders were busy unloading the railroad's stock. From late April until August, Chief Executive Officer Matthew Rose and Chief Operating Officer Carl Ice, along with seven other directors and vice presidents, exercised and sold more than 283,000 Burlington shares, according to InsiderScore.com.

Institutional investors, too, have been skeptical of the Oracle of Omaha's bets on Burlington, as they decreased the number of shares they held in the first and second quarters of 2007, according to Joshua Hong, director of research at OwnershipAnalyzer.com. UBS and Maraico Capital, Burlington's two top institutional holders in the second quarter after Berkshire, sold 9 million shares and 7.8 million shares, respectively, during that period, while Buffett increased his stake by 4.4 million.

Burlington isn't the only railroad that has caught Buffett's eye. Although more recent figures aren't available, filings with the Securities and Exchange Commission in May showed that his holdings include 6.4 million shares of Norfolk Southern (NSC), or a 1.62% stake, and 10.5 million Union Pacific (UNP) shares, a 3.9% stake.

"This is Berkshire Hathaway's stock of the year," says Jonathan Moreland, insider-strategies adviser to Ladenburg Thalmann Asset Management. Moreland says that the recent positive jobs report made Buffett's purchases even more well-founded.

"The jobs report does seem to indicate that the economy has a good chance to muddle through its imbalances and not fall into a severe recession, if it does at all. This is a big bet, and economic data are supporting his bet, but there are still plenty of risks going forward."

Shares of Burlington fell 84 cents, to 85.94, on Monday ■

*A version of this article appeared Oct. 8 on Barron's Online ([www.barrons.com](http://www.barrons.com))*

## Interview With Fred Sturm Manager, Ivy Global Natural Resources

# Shiny Prospects in Metals and Energy

J.R. Brandstrader

FRED STURM WAS A BIG BUYER AT WALL STREET'S FIRE sale this summer, scooping up loads of bargains for his \$7.5 billion Ivy Global Natural Resources (ticker IG-NAX). Decline moves like that, into assets ranging from raw metals to the stocks of mining companies and energy concerns, have helped the fund post annualized returns of more than 30% for the past five years. The fund was up 51.07% for the 12 months through August, compared with 42.89% for the average natural-resources fund and 18.64% for the Standard & Poor's 500, according to Morningstar Sturm, the chief investment strategist for Mackenzie Financial, Toronto fund company, was an enthusiastic shopper because he is optimistic about the markets, despite their volatility. He is particularly upbeat about the global economy, which explains why more than half the fund's assets are now in foreign stocks.

**Barron's:** Some people feel that disaster is just around the corner. Why don't you?

Sturm: American investors are right to be concerned about their own immediate environment. But if they jump on a plane and travel around the world, they'll see that there is much more activity driving world economic growth. One of the measures that we use as a coincidence indicator of total world economic activity is the Baltic Dry Index, which is the price for shipping goods around the world. It tends to be fairly sensitive to the direction of the global economy and slows down when world trade slows. That index has just gone to a new high and we find that very encouraging.

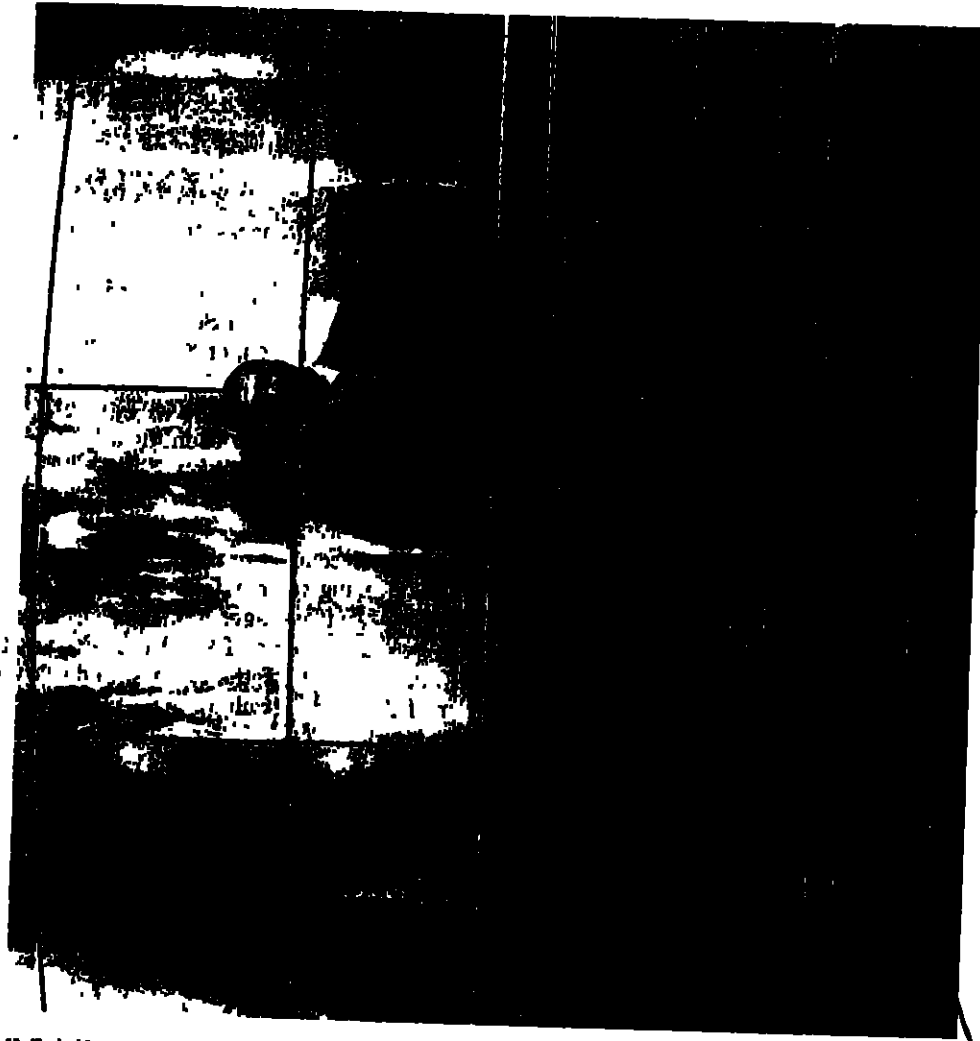
**So this isn't the beginning of a downturn?**

Our view—we've stood by this all year—is that on a global basis, there's no recession in 2007, no recession in 2008. Emerging markets have decoupled efficiently to pick up some of the global-growth slack that is coming through America. Even though America has pockets with recession-like activity, such as autos and real estate, given the breadth of the economy and the service economy in particular, we do not anticipate a recession hitting America this year or next.

**What does that mean for the global markets?**

We still expect global stock markets to come out of this corrective phase and go to new highs in the next year.

**And when do the good times start to roll?**



**"We believe [oil] could well push into the \$95-\$100-a-barrel range within the next year, as long as the world economy stays strong."** Fred Sturm

PHOTOGRAPH BY JEFFREY M. HARRIS FOR BARRON'S

"American investors are right to be concerned about their own immediate environment. But if they jump on a plane and travel around the world, they'll see that there is much more activity driving world economic growth," says Sturm. "The Baltic Dry Index, which is the price for shipping goods around the world, has just gone to a new high."

there I don't think the U.S. dollar has finished adjusting to some of the Asian currencies

So it's worth out below?

The dollar will continue to decline. However, it is not alone. All currencies in the world are going down. Inflation is eroding the buying power of every currency around the world. That trend is likely to continue, so holding cash for any length of time is a bad idea.

Where do you see gold going in the near term?

Our models suggest that the gold price, which began from a low of \$250 an ounce, having been high as \$800 some 20 years earlier, should try, later this year or the beginning of the next, to at least retest the highs that we saw in early 2006 and go to marginally higher levels than that. But our instincts are to argue that they do not accelerate just yet. In the years ahead we still think it is possible that gold will post a four-digit number and poke through \$1,000.

How about a gold stock?

Our largest position is Gold Fields Limited (ticker: GFI). Gold mining remains tough. We like Gold Fields for its long reserve life and unhedged position. The share price at the previous high in early 2006 was about \$27. Under pressure of major blocks being sold, it fell to \$14. It has risen since to \$18. If we are right on our long-term gold call, this stock should comfortably exceed previous highs over the next two to three years.

Are you interested in silver?

Silver will rise in tandem, in sympathy. In the near term, some new silver production that is coming on will create a little extra supply, and that may hold it back at first. But ultimately it will participate.

What about the noble metal platinum?

Platinum has been a longtime favorite in our fund, in our precious metals component, because it's needed for catalytic converters. As the world wants to get more green and takes diesel smoke out of systems, especially in the developed world, the demand for platinum continues to grow.

Can the base metals stay this dear?

We believe copper, nickel, aluminum and zinc have seen their highs. An old rule of thumb is that from a business-cycle high to the next cycle low, prices fall from a half to two-thirds. Copper, having hit a high of \$4 a pound, could well settle in, and trade below \$2, or fall almost 50%, by the end of the next recession, whenever that might be. So we are quite cautious about the base metals: nickel, copper, aluminum and zinc.

Let's switch to energy. Oil prices are hitting new highs. Can they go higher?

They could well push into the \$85-\$100-a-barrel range within the next year, as long as the world economy stays strong.

How high do prices have to go before they effect demand?

Demand growth is already slowing, but it actually reduces demand we probably would need to see energy prices jump another 50% from here because then it would approach a barrier similar to what American consumers experienced in the late 1970s. Pump prices in the \$2.50-\$3-per-gallon range were not enough to choke off demand. But if we start to see, say \$3.50 to \$4 on a sustained basis, people will adjust.

By trading in their SUVs?

Yes. We will have the consumer begin to economize and the producer work a little harder.

How are you playing the energy market?

The first way is Valero Energy (VLO), the largest independent refiner in America, because its refineries can handle heavier crude oil, which enhances its

margins. Every new barrel that gets produced has to get refined somewhere. We were expecting that new refinery buildouts would create excess refining capacity by the end of the decade that could put pressure on the profit margins of the refineries. However, because of cost escalation, a lot of these new construction projects have been either delayed or outright canceled. And so what we see is a confirmation of Valero's inherent asset value. How high might the stock go?

We think the stock still has sufficient value to go to new all-time highs, which would take it through a level of \$75, which we saw

### Sturm's Picks

| Company                    | Ticker | Recent Price |
|----------------------------|--------|--------------|
| Valero Energy              | VLO    | \$67.82      |
| Peabody Energy             | BTU    | 48.50        |
| Gold Fields Limited        | GFI    | 17.69        |
| Smith International        | SI     | 70.94        |
| Companhia Vale do Rio Doce | RD.L   | 31.90        |
| Consolidated Energy        | CNX    | 45.29        |

Source: Bloomberg

earlier this year. It was recently about \$68. And we wouldn't be surprised, if the economy continues to grow, to see it somewhere in the \$80s.

What other energy stocks do you like?

Companhia Vale do Rio Doce (RDO), the iron ore producer in Brazil. It is a massive winner in the emerging-market infrastructure buildout with its two biggest profit generators iron ore and nickel. Both are industries that are well rationalized and are going to generate really attractive profit margins.

This is an excellent example of a company that came down very quickly, very hard in the summer. It spiked down nearly 30% into the middle of August and our valuation models said that was just too cheap. It gave us an

opportunity to add to our core position. And since then it has already rallied to new highs.

Does it have room to go higher?

Yes, given the fast recent runup, it may well settle down for a brief period and pull back. But our models suggest that it could be somewhere around 10% to 20% higher in the course of the next year.

Anything else?

The hunt for more oil and gas is still on. We still expect spending on energy services to continue to expand. Energy services have been a focus in our fund and one of our long-term favorites is Smith International (SI). I just met with the President and CEO, Doug Rock, and based on their continued communications with the investor community, we believe they can sustain above-industry expansion in terms of revenue growth.

What's the outlook for coal?

Coal still stands out as the cheapest possible source for baseload electricity production. Early this year, China confessed that for the first time ever, it now needs to import coal rather than having extra coal to export. And coal prices for both electric-heat generation and making steel have continued to rise steadily.

Who stands to gain?

We like Consol Energy (CNX) and Peabody Energy (BTU). Both of them should benefit, relative to some of the other American coal producers, from growing export opportunities on the Eastern seaboard, and Peabody because it also has a producing asset in Australia, that is benefiting from Asian demand.

Thanks, Fred.

J. R. BRANDTBAUER, a frequent Barron's contributor, teaches journalism at Columbia.

# NATIONWORLD

## Heavier trucks punish infrastructure

Exceeding weight limits weakens roads, experts say

Associated Press, Journal Sentinel staff

More than a half-million overweight trucks are allowed onto the nation's roads and bridges — an increasingly routine practice that some officials say is putting dangerous wear and tear on an already groaning infrastructure.

In interviews with The Associated Press, some experts warned the practice of issuing state permits that allow trucks to exceed the usual weight limits can weaken steel and concrete, something investigators say might have contributed to the Minneapolis bridge collapse Aug. 1 that killed 18 people.

"We talk about this all the time, and the fear that we have is that we're going to have the same sort of disaster here that happened in Minnesota," said Ben Lee, executive director of the Texas Conference of Urban Counties.

In 2000, Milwaukee's Hoan Bridge collapsed when steel girders cracked. Several factors were blamed for the collapse, including a significant number of heavy trucks, some over the normal weight limit, that routinely traveled over the bridge.

The weight limit for nearly all interstate highways is 40 tons. According to a government study, one 40-ton truck does as much damage to the road as 9,600 cars.

But permits frequently al-



Department of Public Safety senior trooper Randy King directs a truck off the scales at an I-35 weigh station in San Marcos, Texas.

**JNSOnline.com**  
For state-by-state information on permits issued for overweight trucks, go to [www.jns.com/links](http://www.jns.com/links).

low vehicles to exceed that amount by 2 tons in Texas and sometimes as much as 85 tons in Nevada. Some states grant one-time permits that allow trucks to be considerably heavier.

Wisconsin issued 4,571 annual permits in 2006 for overweight trucks. The state's weight limit for overweight truck permits is 49 tons.

Around the country, many transportation officials dismiss the fears as overblown and say roads and bridges are safe, though some express concern that not enough is being spent to repair the damage done by extra-heavy trucks.

As for why they issue over-

weight-load permits, many state officials said they have no choice — they are simply carrying out the laws as passed by their Legislatures. Critics of those laws say they often are written to benefit powerful industries, such as logging in the West or oil and gas in Texas.

Darrin Roth, director of highway operations at the American Trucking Association, said it is not fair to put all the blame on trucks because permit loads are a tiny proportion of traffic.

States allowed more than 500,000 overweight trucks to traverse the nation's bridges and highways at will in the last year, according to an AP review of figures in all 50 states. Those permits were good for an entire year. Though 10 states do not issue yearlong permits, all states hand out shorter-term per-

mits good for a few days, weeks or months. These add up to more than 1.8 million permits not included in the AP's count.

Many states, including Texas, have reported a modest increase in the number of overweight-load permits issued in recent years — a rise Roth said can be attributed to a 2.5% to 3% increase a year in truck traffic because of the growing economy.

The danger is magnified by a recent federal finding that 18% of the nation's bridges either do not have weight limits posted or incorrectly calculated the weight limits that are posted. Also, a federal study last year classified 26% of the nation's bridges as either structurally deficient or functionally obsolete.

The American Society of Civil Engineers gave Wisconsin a B-minus rating in 2005 for its bridges.

In Washington, D.C., on Monday, the Senate approved \$1 billion to speed repair and replacement of America's crumbling network of bridges.

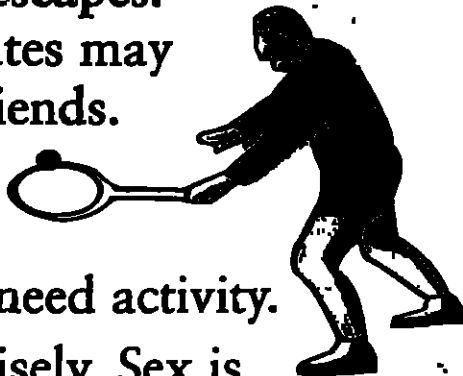
The Senate approved the funds on a 60-36 vote. Wisconsin Sens. Russ Feingold and Herb Kohl, both Democrats, voted for the measure.

The vote came as the Senate began debate on a \$104.6 billion measure funding transportation and housing programs for the budget year beginning Oct. 1. That bill faces a veto threat from President Bush for exceeding his request by \$4.4 billion.

Ben Poston of the Journal Sentinel staff contributed to this report.

## Mental Health Rules

1. **Have a hobby:** Acquire pursuits which absorb your interest; sports and nature are best.
2. **Develop a philosophy:** Adapt yourself to social and spiritual surroundings.
3. **Share your thoughts:** Cultivate companionship in thought and in feeling. Confide, confess, consult.
4. **Face your fears:** Analyze them; daylight dismisses ghosts.
5. **Balance fantasy with fact:** Dream but also do; wish but build; imagine but ever face reality.
6. **Beware alluring escapes:** Alcohol and opiates may prove faithless friends.
7. **Exercise:** Walk, swim, golf, play tennis – muscles need activity.
8. **Love:** But love wisely. Sex is a flame which uncontrolled may scorch; properly guided, it will light the torch of eternity.
9. **Don't become engulfed in a whirlpool of worriers:** Call early for help. The doctor is ready for your rescue.
10. **Trust in time:** Be patient and hopeful. Time is a great therapist.



# They Really Do Own the Road

Loaded with investor cash, companies are buying leases of public highways, bridges and tunnels from states desperately trying to improve infrastructure. Cue the backlash

BY BARBARA KIVIAT

**P**ENNSYLVANIANS HAD BEEN clamoring for a new road between Philadelphia and Lancaster for years, but the government just couldn't afford it. So in 1792 the state chartered a company that would build the nation's first private turnpike—62 miles (100 km) of stone and gravel—in exchange for the right to collect tolls. Today Pennsylvania finds itself in a similar bind, with the money it needs for roads and bridges far outstripping the money it gets from the gas tax and other revenue streams. So Governor Ed Rendell is turning back the clock, proposing a slew of deals with the private sector, starting with a long-term lease of the 359-mile (578 km) Pennsylvania Turnpike, which could bring the state an estimated \$12 billion to \$18 billion up front. "We have to be as creative as heck to get out there and fund our infrastructure needs," says Rendell.

For states and cities looking to upgrade or replace aging infrastructure, partnering with private players is the biggest idea to come along since the interstate highway system started ribboning the country with asphalt in the 1950s. The appeal: governments can stop worrying about roads, bridges and tunnels, and companies get lucrative leases that allow them to collect money from drivers for generations. The craze is being driven by investors who crave the steady cash flow of decades' worth of tolls. There are 71 projects worth \$104 billion being considered for private development by state and local governments, according to the publication *Public Works Financing*. The proposals are feeding a new pack of investment funds from the likes of Goldman Sachs, Morgan Stanley

and the Carlyle Group—as well as controversy over how roads should be paid for.

The deals, common in Europe for decades, got jump-started in the U.S. in 2005 when Chicago enriched its treasury by \$1.8 billion by selling a 99-year lease of the Chicago Skyway to Spanish roads operator Cintra and Australian bank Macquarie. At about the same time, Texas bagged \$1.2 billion to let a Cintra-led consortium build the first part of the Trans-Texas Corridor and collect tolls on it for 50 years. In 2006 Indiana signed a 75-year lease for the 157-mile (253 km) Indiana Toll Road

**'U.S. Infrastructure needs lots and lots of capital, and it's not obvious where all that money is going to come from.'**

—MURRAY BLEACH, PRESIDENT OF MACQUARIE HOLDINGS USA

in exchange for \$3.8 billion, funding the state's transportation needs for the next decade—and grabbing the attention of other budget-conscious states. "It was an earthquake in transportation," says Bob Poole, director of transportation studies at the Reason Foundation, a think tank.

But since the spring, a backlash has taken hold. Texas, a pioneer in privatization under the enthusiastic leadership of Governor Rick Perry, saw its legislature impose a two-year moratorium on new projects. The Pennsylvania legislature bounced Rendell's first attempt to privatize the turn-

pike, though now he's trying again in the wake of shifting state politics. The mother of all toll roads, the New Jersey Turnpike, is under review, but Governor Jon Corzine, a former Goldman chairman, disappointed eager bankers in June when he flatly stated, "We're not going to privatize."

The issue exploded last May when a letter was sent by the House Transportation Committee's James Oberstar of Minnesota and Peter DeFazio of Oregon to all 50 Governors, expressing concern that a flood of local deals might put "parochial and private interests" ahead of an "integrated national transportation network"—and threatening to undo any deals found not to be in the public's interest. That's pointedly at odds with the Department of Transportation (DOT), which, following the lead of the Bush Administration, has been a huge supporter of privatization and helped pave the way by letting some companies issue debt with the same tax advantages as municipal bonds. The DOT also drafted model legislation for states, considering deals and in at least one case—when Texas backed off a deal with Cintra—threatened to withhold funds.

So what's not to love? The most common gripe is populist. Tolls often skyrocket under private owners, though with the blessing of elected officials, who avoid the political costs of raising tolls or taxes themselves. That's how privatized roads deliver double-digit returns for investors and often lead to upgrades like electronic tolling. But there are other devils lurking in the details, like noncompete clauses that may prevent transportation agencies from building new roads, or the inability to use roads for economic development by, say, adding a new exit to attract businesses. Some officials get queasy about locking themselves into long leases; Colorado officials already regret offering a 99-year lease for the Northwest Parkway. Others are turned off by the hard sell from investment bankers who advise states on some deals and bid on others. "This should be the last option," says Texas state senator John Carona, "not the first."

At the core of the debate is a fundamental issue: Is building roads one of those things, like trade policy, that only the Federal Government should steer, or is there a better way? Forty-five percent of the money spent on American roads comes to the states from the Federal Government, but Congress hasn't raised the gas tax, its main source of highway funds, since 1993. And that's just fine by people who find the free market efficient and earmark-free.

The debate is more than philosophical. Even before the recent Minnesota bridge collapse, commuters in crowded corridors from Atlanta to northern Virginia knew that our infrastructure needed investment and that

# Paved with Gold? More of the nation's highways and toll roads are going private

**Chicago Skyway**  
The 99-year lease helped set U.S. dealmaking in motion, but not all of the \$1.8 billion it generated goes to transportation

**Indiana Toll Road**  
When Governor Mitch Daniels cut a 75-year deal for \$3.8 billion, residents weren't happy, but other states snapped to attention

**Pennsylvania Turnpike**  
The Governor says a lease could be a windfall, but the legislature has batted down the idea once before

**New Jersey Turnpike**  
The state needs money to service its debt, but the Governor says he won't privatize

**Capital Beltway**  
Virginia has inked a number of deals, including one with Transurban and Fluor for new Beltway lanes

**Port of Miami Tunnel**  
Florida plans to strike a private-sector deal for its new Port of Miami tunnel to avoid the open-ended risk of projects like Boston's infamous Big Dig

**Northwest Parkway**  
Portuguese roads operator Brisa is leasing the 11-mile (18 km) road for 99 years, rescuing Colorado municipalities from defaulting on the debt issued to build it

**State Highway 130**  
Texas' two-year moratorium doesn't affect deals in the pipeline, like SH 130. Its lease has a toll-sharing clause that pays off for the state especially well if the road is worth more than anticipated

**State Highway 121**  
Roads operator Centra was picked for the project, but the Texas legislature pushed to let a public tolling authority submit a late bid, which won, angering U.S. transportation officials

**Boston Big Dig**  
The new San Diego—San Diego road, on the drawing board for decades, will charge \$3.50 for the complete 10-mile (16 km) stretch

capacity hadn't kept pace with demand. It hasn't helped that many state politicians have been just as reluctant as Congress to raise gas taxes. Or that thanks to the surging price of materials like petroleum and steel, the cost to build highways has jumped 43% since the beginning of 2004.

Money from the private sector could help fill that gap, but there is more than one way to get it. Deals like the Chicago Skyway and Indiana Toll Road, which lease existing assets, may tap the private sector's operating prowess and political immunity in raising tolls, but critics see them as long-term mortgages to solve short-term fiscal problems. "People are giving public-private partnership a bad name by running around the countryside trying to entice cash-strapped states and municipalities to participate in these monetizations," says Tim Carson, vice chairman of the Pennsylvania Turnpike commission and a public-finance lawyer.

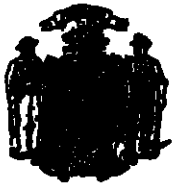
Carson argues that the public sector can wring plenty of cash out of toll roads by essentially behaving like the private

sector and charging market rates for usage. The express lanes of State Road 91 in Southern California, for example, carry some of the highest tolls in the nation—at peak hours, nearly a dollar a mile—which may annoy drivers but help pay for the state's transportation needs. The Pennsylvania Turnpike commission has produced a plan to raise turnpike tolls and attach tolls to other roads in the state.

Deals in which the private sector actually builds new infrastructure are usually a better bargain for the public. The state or city gets a new stretch of highway or a bridge or a tunnel, and it shifts risk to its private partner—a genuine benefit. If construction costs spike or expected traffic doesn't materialize, that's the company's problem. "We've had some governments say to us, 'I don't really need to be in that business,'" says Mark Florian, who oversees infrastructure deals for Goldman Sachs. These so-called greenfield projects are starting to catch on. And some states are getting savvy about how to structure the terms. The 50-year lease for Texas'

State Highway 130, for example, includes a revenue-sharing clause that nets the state 4.6% of gross receipts at first and up to 50% as traffic increases—just in case the road proves more valuable than predicted.

And even though 2007 has placed a few speed bumps in their way, public-private partnerships are almost certainly here to stay. Many of the financiers who run infrastructure funds actively drum up deals—some states allow unsolicited bids, and bankers have fanned across the country in response—and the big global players in infrastructure have set up shop too. Worldwide, somewhere from \$50 billion to \$150 billion worth of equity is waiting to be invested in infrastructure of all stripes (including assets like airports and water systems), and much of that is trained on the U.S. "U.S. infrastructure needs lots and lots of capital, and it's not obvious where all that money is going to come from," says Murray Blech, who runs U.S. operations for Macquarie. "The potential is huge." With all that cash waiting in the wings, other concerns may not stand a chance. ■



# Office of the Commissioner of Railroads

610 N. Whitney Way  
P.O. Box 8968  
Madison, WI 53708-8968

Rodney W Kreunen, Commissioner

Tel: (608) 266-7607  
Fax: (608) 261-8220  
TTY: (608) 267-1479

## **CRX - 'The Road to Closure'**

November 2006

### **Review of a Corridor**

- 1) **Vehicle traffic patterns**
- 2) **Which CRXs are really needed?**

### **Setting the Strategy**

- 3) **'Safety Opinions'**
  - a) **Railroad crews**
  - b) **OCR staff & Commissioner's thoughts**
  - c) **Police and Fire and EMS staff views**
  - d) **Area civic leaders, residents**
- 4) **Accumulation of facts**
  - a) **CRX needs - Actual or perceived**
  - b) **Alternative routes**

### **Interface w/local officials**

- 5) **Contacts at local level**
  - a) **OCR staff**
  - b) **Railroad personnel**
  - c) **Director of Public Works**
  - c) **Elected Officials**
  - d) **Interested public members**
- 6) **Co-ordination of efforts**
  - a) **OCR - Focus of approach**
  - b) **Railroad closure report**
  - c) **Railroad incentives**
  - d) **OCR corridor improvements**
  - e) **FRA involvement/Assistance**

### **The 'Decision' to 'Close' or 'Walk'**

- 7) **The move toward the Hearing**
  - a) **OCR selected leader to set tone.**
  - b) **Local information/pulse meetings**
  - c) **OCR 'Hearing Examiner' sets the  
time, place and date of hearing**

### **The 'Hearing' How it is run**

- a) **Appearances of witness's**
- b) **Gathering of facts.**

### **The 'Order' - How it unfolds**

- a) **Proposed Order (Hearing Examiner)**
- b) **Final Order (Commissioner)**



# Office of the Commissioner of Railroads

610 N. Whitney Way  
P.O. Box 8968  
Madison, WI 53708-8968

Rodney W Kreunen, Commissioner

Tel: (608) 266-7607

Fax: (608) 261-8220

TTY (608) 267-1479

## **CRX Review Form**

**Road** \_\_\_\_\_ **MP** \_\_\_\_\_ **FRA CRX #** \_\_\_\_\_  
**City/Village/Town** \_\_\_\_\_ **County** \_\_\_\_\_

### **1) Town Officials: Name Phone # Contact - Date/Time**

#### **A) Town Chairman**

\_\_\_\_\_

#### **B) Police Chief**

\_\_\_\_\_

#### **C) Fire Chief**

\_\_\_\_\_

#### **D) EMS Director**

\_\_\_\_\_

#### **E) Others**

\_\_\_\_\_

### **2) Legislators:**

#### **A) Senator**

\_\_\_\_\_

#### **Staffer**

\_\_\_\_\_

#### **B) State Rep**

\_\_\_\_\_

#### **Staffer**

\_\_\_\_\_

### **3) County Officials:**

#### **A) Hiway Commissioner**

\_\_\_\_\_

#### **B) DPW**

\_\_\_\_\_

#### **C) County Executive**

\_\_\_\_\_

#### **D) Regional Plan**

\_\_\_\_\_

### **4) Railroad:**

#### **A) Public Works**

\_\_\_\_\_

#### **B) Operations**

\_\_\_\_\_

#### **C) Legal**

\_\_\_\_\_