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ORIGINAL

February 27, 2004



ENTERED  
Office of Proceedings

FEB 27 2004

Part of  
Public Record

VIA HAND DELIVERY

Mr. Vernon A. Williams  
Secretary  
Surface Transportation Board  
1925 K Street, NW - Room 700  
Washington, DC 20006

Re: STB Service Order No.  
Arkansas Midland Railroad Company, Inc. -  
Emergency Service Order - Line of Delta  
Southern Railroad, Inc.

Dear Secretary Williams:

Enclosed for filing in the above-captioned proceeding are an original and 10 copies of the Reply of Delta Southern Railroad, Inc. to Petition for Emergency Service order, dated February 27, 2004.

Please date stamp and return one copy to show receipt of this filing.

If you have any question concerning this filing, please feel free to contact me at the above number.

Respectfully submitted,  
  
John D. Heffner

Enclosure

cc: All parties  
Melvin Clemens

BEFORE THE  
SURFACE TRANSPORTATION BOARD

STB Service Order No. \_\_\_\_\_

ARKANSAS MIDLAND RAILROAD COMPANY, INC  
- EMERGENCY SERVICE ORDER -  
LINE OF DELTA SOUTHERN RAILROAD, INC.



ENTERED  
Office of Proceedings

FEB 27 2004

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REPLY OF DELTA SOUTHERN RAILROAD, INC.  
TO  
PETITION FOR EMERGENCY SERVICE ORDER

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Part of  
Public Record

John D. Heffner  
John D. Heffner, PLLC  
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(202) 263-4180

Counsel for Delta  
Southern Railroad, Inc.

Dated: February 27, 2004

BEFORE THE  
SURFACE TRANSPORTATION BOARD

STB Service Order No. \_\_\_\_\_



ARKANSAS MIDLAND RAILROAD COMPANY, INC.  
- EMERGENCY SERVICE ORDER -  
LINE OF DELTA SOUTHERN RAILROAD, INC.

REPLY OF DELTA SOUTHERN RAILROAD, INC.  
TO  
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I.  
INTRODUCTION

Delta Southern Railroad, Inc. ("DSR") currently has the exclusive right to operate a line of railroad between Warren and Dermott, AK, known as the Warren Branch (hereafter referred to as "the Line") under a 20 year lease with the Union Pacific Railroad ("UP") dated September 21, 1997. On Friday February 20, 2004, Arkansas Midland Railroad Company, Inc. ("AKMD") filed an unwarranted and premature "Petition for Emergency Service Order" under 49 U.S.C. 11323 and the Board's implementing regulations at 49 CFR 1146 seeking Board permission for it to displace DSR, at least temporarily, as the Line's operator. Under 49 CFR 1146, DSR as the incumbent railroad has five business days or until Friday February 27, in which to reply. DSR urges the Board to reject AKMD's request as contrary to its regulations and an intrusion upon its leasehold rights.

II.  
BACKGROUND

DSR is an independently owned class III short line railroad operating in the States of Arkansas and Louisiana. DSR is the successor company to Delta Southern Railroad Company ("DSRC") which originally owned and operated these properties.<sup>1</sup> Today, DSR operates three former Missouri Pacific (later UP) rail properties in Arkansas and Louisiana. First, it owns and operates a line between McGehee, AR, and Tallulah, LA. Second, it leases from UP and operates a line from Sterlington to Monroe, LA.<sup>2</sup> Third, it leases from UP and operates the subject rail line. This is the **only** DSR line which is the subject of this litigation or any proceeding currently before the Board.

The Line extends from Warren to Dermott, a distance of approximately 40 miles. On the west end at Warren the line connects with the Warren & Saline River Railroad ("W&SR"), a common carrier switching railroad wholly owned and operated by

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<sup>1</sup> DSRC was a short line railroad founded in 1990 by Lawrence Beal, owner of National Railway Equipment Corporation, a company which buys, sells, rebuilds, and leases locomotives and other heavy industrial equipment. In 1999, DSR's owners William and Linda Wainright purchased the assets of DSRC from Lawrence Beal. Mr. Wainright has been intimately involved with these rail lines since 1990, first as General Manager for DSRC and then as president and part owner of DSR. The STB issued an exemption authorizing that transaction in FD No. 33802, Delta Southern Railroad, Inc. - Acquisition and Operation Exemption -Delta Southern Railroad Company (served October 20, 1999).

<sup>2</sup> DSR abandoned the northern continuation of that segment from Huttig to Sterlington in 1993 in Docket AB-No. 348-X, Delta Southern Railroad Company - Abandonment Exemption - In Union County, AR, and Union Parish, LA (served July 20, 1993).

Potlatch Corp ("Potlatch"). On the east end at Dermott, the Line connects with UP's mainline from Little Rock, AR to Monroe, LA. DSR holds overhead trackage rights over UP's line between Dermott and McGehee to permit it to enter UP's McGehee Yard for the purpose of interchange.<sup>3</sup>

At the time DSR took over operations in 1997, the Line handled about 2,500 carloads annually. Presently DSR moves about 6,000 carloads of traffic per year. In 1997 the Line had two principal customers representing 90% of its carloadings: Potlatch and Fulghum Fibres Company ("Fulghum"). Both companies still constitute the largest shippers on the Line. Potlatch ships outbound loads of lumber and woodchips from its facility on the W&SR at Cloquet and produces outbound loads of lumber at a plant at Warren. Fulghum, a subcontractor for Potlatch, ships outbound woodchips from its plant at Warren to a Potlatch facility located on a nearby UP branch line serving Cyprus Bend, AK. DSR interchanges this freight with UP at its yard in McGehee.

At the time DSR assumed operations over the line in 1997, the track conditions were poor with 70% of the line in less than

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<sup>3</sup> DSR's line between McGehee and Tallulah also enters UP's yard but DSR cannot directly interchange traffic between these two lines.

class I condition. Like many other rail lines in southern Arkansas and Louisiana, the Line is a very difficult piece of railroad to maintain because of the spongy nature of the soil and the relatively high water table. As a result, DSR must continually add rock to the roadbed and resurface the track to keep it in a satisfactory condition. Moreover, roughly 60 small bridges carry the track over a numerous small rivers and waterways inherent in the local geography. The line is prone to flooding and flood-related damage. In addition, the fact that most of the track is laid with noncontrol cooled jointed rail makes the track more susceptible to rail breakage than would otherwise be the case. As a result, the Line cannot handle freight cars heavier than 263,000 pounds. DSR submits with this Reply the affidavit of Gilbert Gillette (hereafter "Gillette Aff."), a veteran railroad consultant well versed in short line engineering and operating issues, documenting the maintenance and operating issues it faces.

AKMD is a class III short line railroad subsidiary of Pinsly Railroad Corporation, an absentee short line railroad holding company headquartered in Massachusetts. AKMD owns several short line railroads in Florida and one in Massachusetts. AKMD is Pinsly's only railroad property west of the Mississippi. According to the American Shortline Railway Guide (looseleaf

edition issued in 1995),<sup>4</sup> AKMD in 1995 operated about 104 miles of former UP track on four disconnected branches in Arkansas generating about 20,000 cars per year. AKMD's lines are about 80 miles northwest of DSR's line, in the central part of the State. AKMD itself is no stranger to an emergency service request premised on poor service as it lost one of its four lines (from Birds Mill to Gurdon, AR) filed in connection with an application under the Feeder Rail Development Program. See, Caddo Antoine And Little Missouri Railroad Company - Feeder Line Acquisition - Arkansas Midland Railroad Company Line Between Gurdon and Birds Mill, AR, \_\_\_ S.T.B. \_\_\_ (slip op. served Aug. 12, 1999 at 3-4. It is ironic indeed that AKMD would today be the vehicle used to take away the Line from DSR.

III.  
THE APPLICABLE LAW

In 1998 the Board promulgated its regulations providing "Expedited Relief for Service Emergencies" as a result of the "service melt down" which occurred in the aftermath of the Union Pacific-Southern Pacific merger. Located at 49 CFR 1146, the regulations state that to obtain relief a petitioner must file a petition (1) showing a substantial measurable service deterioration or other demonstrated service inadequacy by the incumbent carrier; (2) providing a summary of discussions with

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<sup>4</sup> See page 61, attached hereto as Exhibit A.

the incumbent carrier of these service problems and the reasons why the incumbent is unlikely to restore adequate service consistent with current transportation needs within a reasonable time period; (3) containing a commitment from an alternative rail carrier to meet current transportation needs including a showing that this service can be performed safely without hurting service to the existing customers of the alternative carrier and without unreasonably interfering with the incumbent's service; and (4) including a certificate indicating service by hand or overnight delivery on the incumbent and proposed alternative carriers and the Federal Railroad Administration.

DSR's research discloses that there very little precedent on these regulations and none involving the exact factual situation presented here. In the Board's notice of proposed rulemaking issued on May 12, 1998, announcing this proposed regulation, the Board stated,

[w]e caution that the proposed rules are not meant to redress minor service disruptions. Access - particularly that which would compel physical access by another railroad over an incumbent's lines - is a serious remedy with potentially significant operational, safety, and financial consequences for the involved carriers, and we intend that the rules be used to remedy only substantial service problems that cannot readily be resolved by the incumbent railroad. Id. At 4.

DSR has examined the Board's very limited precedent involving 49 CFR 1146 and found only one case in which it granted a request by a short line railroad for emergency authority to

operate over the lines of another. In that case, STB FD. No. 33762, Denver Rock Island Railroad-Alternative Rail Services-Lines of Kansas Southwestern Railway, L.L.C. (served June 15, 1999), the Board granted the request because the line had been out of service for two years and was the subject of an abandonment exemption, an on-line grain shipper had an immediate need for service, the petitioning carrier had made all necessary arrangements to begin service, and the incumbent carrier was agreeable to the petitioner's service request. The Board denied emergency service relief in four other cases involving directed service requests filed by a shipper or its serving short line railroad. See, e.g., STB FD No. 33795, American Plant Food Corporation - Alternative Service - Lines of Texas Northeastern Railroad (served Dec. 16, 1999), STB FD. Nos. 34310 and 34397, Keokuk Junction Railway Company - Alternative Rail Service - Line of Toledo, Peoria and Western Railway Corporation (involving two different service requests, decisions served Feb. 14, 2003 and Oct. 31, 2003), and STB NOR. 42083, Granite State Concrete Co., Inc., et al v. Boston And Maine Corporation, et al (served Sept. 12, 2003). In American Plant Food, the Board denied relief because the petitioner had not shown any service failures and had not engaged in any pre-filing discussions with the incumbent carrier to resolve service problems. In Keokuk, the Board refused to grant Keokuk's relief because the incumbent carrier

stated that it was ready, willing, and able to provide service and the dispute appeared to be more one of rates than service availability. Finally, in Granite State Concrete, the Board refused to grant a joint petition by a shipper and a short line because the shipper was still receiving some - albeit marginal - rail service from the incumbent carrier.

IV.

AKMD'S PETITION MUST BE DENIED

AKMD's Petition contains a series of allegations regarding DSR's service on the Line. DSR has classified them into 10 categories and its President William P. Wainright addresses them one by one in his affidavit accompanying this Reply. But AKMD's Petition must be denied because it fails to satisfy the first two and the most critical elements of the four part test of 49 CFR 1146. First, to obtain the sweeping relief afforded by the regulation, a shipper or its petitioning carrier must showing a substantial measurable service deterioration or demonstrated service inadequacy by the serving carrier. While DSR concedes that it has had service problems beginning around December 2003 and some isolated problems before that, it has nevertheless endeavored to provide its shippers with service despite those problems. This behavior is to be compared with that of AKMD itself on the Norman Branch where the carrier simply suspended service for three and one half months between December 15, 1993, and April 1, 1994. See, Caddo Antoine, supra. Moreover, DSR

has spent the past several weeks restoring its railroad to a class I track standard and working to locate derailment and bill of lading insurance. See, the Affidavit of Louis Schillinger. Like the Toledo, Peoria & Western Railroad in the Keokuk case, DSR has engines and personnel ready to resume service when its two principal customers are ready to shift back to rail service.

Second, to obtain relief, the regulation requires the petitioner to provide a summary of discussions with the incumbent carrier and reasons why the incumbent is unlikely to restore adequate service within a reasonable time period. Petitioner AKMD has not made any attempt to meet with DSR to discuss service. While DSR communicates on an almost daily basis with Potlatch and Fulghum in the normal course of business, very few of these discussions have touched upon the adequacy or inadequacy of DSR's service. As Mr. Wainright relates in his affidavit, . the first time that Potlatch expressed any serious concerns about the quality of DSR's service was on a conference call which took place at the office of its Washington attorney around February 11 or 12. Upon Mr. Wainright's return to the railroad's office, he sought to schedule a meeting with Potlatch officials but Potlatch preferred to talk by telephone. During that call, Potlatch merely advised Mr. Wainright that it would work with UP. See, Wainright Affidavit, Para. 9. Although DSR similarly has an ongoing dialog with UP personnel, UP did not begin to present its

concerns about the quality of service provided until a few weeks before giving notice of default. UP advised DSR of its concerns by telephone or letter rather than through any personal meetings and made no effort to attempt to bring DSR and its two customers together to engage in problem solving over issues of mutual concern. See, Wainright Affidavit, para. 9 and attachments.

V.

CONCLUSION

In conclusion, DSR submits that AKMD has not satisfied the regulatory test for emergency rail service over AKMD's lines. DSR is doing everything it can to prepare the Line for service once shippers are ready to use rail again. As a minimum, AKMD's request is premature insofar as DSR has a right to cure under the lease until March 18. DSR believes that it will be in full compliance with the lease terms by that date. Accordingly, it requests that the Board deny AKMD's relief request at this time and encourage Potlatch, Fulghum, and UP to meet face to face to work with it in a cooperative way on a longer term basis.

Respectfully submitted,



John D. Heffner  
John D. Heffner, PLLC  
1920 N Street, NW - Suite 800  
Washington, DC 20036  
(202) 263-4180

Counsel for Delta  
Southern Railroad, Inc.

**CERTIFICATE OF SERVICE**

I hereby certify that on this 27<sup>th</sup> day of February, 2004, a copy of the foregoing Reply of Delta Southern Railroad, Inc. To Petition For Emergency Service Order was served by the following:

Office of Chief Counsel  
Federal Railroad Administration  
400 Seventh Street, SW - Room 5101  
Washington, DC 20590

David A. Weisel  
Director of Distribution  
Potlatch Corporation  
805 Mill Road  
Lewiston, ID 83501

Warren C. Wilson  
Senior Manager Rail Line Planning  
Union Pacific Railroad Company  
1416 Dodge Street - Room 1110  
Omaha, NE 68179

William C. Sippel  
Thomas J. Litwiler  
Fletcher & Sippel LLC  
29 North Wacker Drive - Suite 920  
Chicago, IL 60606-2875

Mr. Melvin Clemens  
Surface Transportation Board  
1925 K Street, NW  
Washington, DC 20423-0001

  
\_\_\_\_\_  
John D. Heffner

1816 E.M.D. GP-28 1800 hp 9-1964 29593  
536 Box Cars, 73 Flat Cars, 21 Covered Hoppers

R5/95

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ARKANSAS MIDLAND RY. CO., INC. - ARMD  
P.O. Box 696  
Malvern, AR 72104

501-844-4444  
FAX 844-4710

This company operates four disconnected lines. The two most important run from Mountain Pine, through Hot Springs, to a MP connection at Malvern, AR, 33.3 miles and from Birds Mill (see note) to a MP connection at Gurdon, AR, 52.3 miles. Others run from Galloway to a connection with the MP at North Little Rock, AR, 6.6 miles and from Helena to a connection with MP at Lexa, AR 12 miles. A total of 104.2 miles are operated. Rail varies from 75-110 pound.

Traffic is primarily forest and food products, aggregate, building material, soybean and cotton seed oil - about 20,000 cars a year.

The Mountain Pine line was built by the Hot Springs Railroad and opened January 25, 1876 as a 3 foot gauge line. Hot Springs was sold to the Choctow, Oklahoma & Gulf (Rock Island in 1902. The Gurdon line was built by the Gurdon & Ft. Smith RR chartered in 1900. In 1909 it came under control of the St. Louis, Iron Mountain & Southern (MP). The Carlisle line is a former Rock Island branch. The Helena branch was built by the Iron Mountain & Helena RR chartered in 1879 and purchased by the St. Louis & Iron Mountain in 1882. All four lines were turned over to the current operator by MP on February 23, 1992. (NOTE) A large portion of the Birds Mill line is being operated by the CADDO, ANTOINE & LITTLE MISSOURI RR which started service April 6, 1994.

Arkansas Midland is a subsidiary of Pinsky Railroad Co., Inc.

Radio frequency: 160.275, 161.460, 160.905 (yard)

Enginehouse: Jones Mills and Pike City Jct., AR

Equipment: 8 engines

700	E.M.D.	GP-8	1600 hp	1-1956	20806	R5-1974
703	E.M.D.	GP-8	1600 hp	3-1951	12933	R2-1974
707	E.M.D.	GP-8	1600 hp	4-1953	17972	R8-1974
722	E.M.D.	GP-8	1600 hp	4-1953	17721	R1-1977
726	E.M.D.	GP-8	1600 hp	4-1953	17726	R2-1977
728	E.M.D.	GP-8	1600 hp	8-1952	16903	R2-1977
850	E.M.D.	GP-8	1600 hp	4-1952	16405	R6-1973
918	E.M.D.	GP-8	1600 hp	3-1953	17718	R5-1978

6/95

## **AFFIDAVIT OF GILBERT A. GILLETTE**

Gilbert A. Gillette, being duly sworn, deposes and states as follows:

1. My name is Gilbert A. Gillette. My address is 15378 Rosewood Street, Caldwell, Idaho 83607. I have been retained by Delta Southern Railroad, Inc. ("DSR") in connection with its reply to the petition filed by Arkansas Midland Railroad ("AKMD") for an emergency rail service order over DSR's tracks. It is my understanding that AKMD seeks to take over the rail service which DSR presently provides over a line of railroad owned by and leased from the Union Pacific Railroad ("UP") between Dermott and Warren, Arkansas. It is my further understanding that AKMD desires to provide this service because DSR is allegedly unable to operate because of track conditions and loss of liability insurance.

2. I am enclosing with this Affidavit a copy of my professional resume. As you can see, I have over 50 years of experience and have been responsible at one time or another for most facets of a railroad enterprise, including engineering, track and right of way maintenance, train operations, marketing and pricing, and short line and regional railroad management. My railroad experience includes 24 years of employment with Class I railroads including the Delaware & Hudson Railroad Corporation and the Soo Line Railroad, both now part of Canadian Pacific Railway. Following my Class I experience, I spent 8 years spearheading a complete startup of the Brownsville & Rio Grande International Railroad ("BRG"), a terminal switching railroad serving the deep water Port of Brownsville on the Texas Gulf Coast, and serving as its president. At the same time, I did consulting work including the provision of management services for the regional railroad market, including the Red River & Western railroad in North Dakota. In 1991, I

resigned from BRG in order to establish, in concert with my partner, Rio Grande Pacific Corporation (“RGPC”), a Texas-based holding company that owns, operates and maintains short line and regional railroads and an engineering company specializing in railway construction and maintenance. Simultaneously, and apart from RGPC, I headed up a complete turn-key startup of the Dakota, Missouri Valley & Western Railroad, Inc., a 365 mile long class III carrier operating in North Dakota and Montana, and acted as its president for its first year in operation.. For RGPC, I initially served as a co-owner, incorporator, shareholder, and president as well as an operating officer with each of its subsidiary carriers. Today, Rio Grande Pacific owns four class III railroad subsidiaries, all of which are UP “spin-offs.” One of these, the Idaho, Northern & Pacific Railroad (“INPR”) started in 1993 operating in the Pacific Northwest where it handled, on approximately 400 miles of line, all of the rail traffic originating from Boise Cascade mills in the State of Idaho a substantial amount of lumber and other forest-related products in eastern Oregon. Today, it continues to handle large volumes of timber industry products, including all rail traffic into and out of Boise.

3. I am familiar with the subject line of railroad, the Warren Branch.

RGPC looked at this line sometime during the early to mid '90s, when it was being considered for disposal to a short line operator by UP. RGPC decided at that time it did not fit its business plan. My recollection of the line is that it handled lumber and wood chip traffic almost exclusively. This is a type of traffic that produces low per car revenue for the handling carrier. By the nature of things, the amount that UP could pay its short line “partner” was also very modest. I also remember the line as presenting numerous maintenance issues. It was constructed of 90 lb. non control-cooled, jointed rail laid on

ties and ballast supported inadequately by an unstable soil base. Over the years, the rail had become brittle from cold-working, and would fracture easily when subjected to live loads into which heavy axle loadings were factored. That situation could scarcely have improved by now, unless the steel were relayed, which it has not been. While the line had an "adequate" track condition (at best, FRA Class I) for operation at speeds of up to 10 mph, the track surface and alignment required constant attention because of unstable subgrade conditions. In other words, in order to properly maintain the track condition to prevent derailments and broken rails, low joints and cross-level problems, it would be necessary for the railroad to either pressure grout the track by injecting concrete slurry into pipes driven into the right of way diagonally (in effect forming a "V" shape under the ballast section) or by stabilizing and compacting the soils under the ballast using lime stabilization or caliche. The latter procedure would require the railroad to first dismantle the track, then put down layers of stabilizing material and compact it, and then reballast and rebuild the track on top of that layer. Absent such attention, the continued movement of even 263,000 lb. freight cars over the line would quickly cause the track structure to deteriorate to the point it became unusable. There is no way such a line could safely handle 286,000 pound freight cars now being placed in service. This problem is not unique to the DSR; it is ubiquitous on lightly built secondary lines wherever unstable or "plastic" soil conditions exist.

4. As I mentioned above, I am well familiar with the loading practices of the lumber industry as well as the policies of UP in respect to UP's relationship to short line carriers. Green and finished lumber and related products (wood chips, cants, etc.) have been among the major commodities hauled over the INPR. While INPR does not serve

Potlatch, Boise Cascade Corporation was the predominant INPR customer in Idaho and Oregon until it closed all of its Idaho mills because of federal timber leasing policies. Because margins are so slim in the lumber and paper businesses, these companies took actions to get the most transportation for their dollar. More specifically, Boise Cascade and other companies in allied fields served by INP made a regular practice of overloading rail cars. This practice not only made it difficult and even dangerous to operate in mountainous territory but also caused excessive wear and tear on the track structure and required unusually high normalized/annualized maintenance costs on a per mile basis.. Derailments and spilled cargo occurred from time to time despite INPR's constant attention to track maintenance. Furthermore, high center of gravity freight cars such as Potlatch desires to use on DSR are subject to harmonic instability (lateral rock and roll) on poor track, and could easily tip over, will likely rock back and forth on the poor track and could easily tip over, a common occurrence nation wide with monster cars on light track structure..

5. As the co-founder of several UP-created lines , I am also intimately familiar with the type of commercial relationship existing between DSR, UP and the on-line customers. It is the same arrangement which each of Rio Grande Pacific's subsidiaries has. Under that arrangement, the short line is essentially a subcontractor for UP. UP makes the rates, routes all the traffic (except intra-line traffic), bills and collects the freight charges from the customer, and pays the short line a small allowance in the nature of a junction settlement or switching fee. Typically, the "partner" short line as UP calls them, has no ability on UP-interline traffic to increase rates or impose any short of local charges. Should the revenue generated be inadequate, the short line's only option is to

ask UP to increase its allowance. Because freight rates are so small and truck competition is steep, UP does not have a lot of leeway to pay higher allowances to its short line “partners.” And because companies like Boise Cascade and Potlatch are very important customers for UP on other lines, UP is very reluctant to increase its rates to make a branch line truly profitable. In fact, the allowances which UP has paid DSR are *less* than the reciprocal switch charges which one class I carrier typically pays another class I railroad for interchanging traffic and moving it from one side of a village to another for loading or unloading!

6. It is my understanding that AKMD has testified that its arrangement with UP is the same as the one which DSR has with UP and INPR also has with UP. Of course, it is possible that UP could offer AKMD a higher allowance within the same overall commercial arrangement. But then UP could have offered DSR a higher payment as it has requested in the past. The simple fact of the matter is that, absent some development not presented here in the record, there is no likelihood that AKMD could operate the Line any more attractively or reliably than DSR has to date. Accordingly, even if AKMD’s petition is granted, there is no guaranty that the same vicious cycle of heavily overloaded cars moving at less than compensatory rates on insufficient track structure that is too costly to properly maintain given the lack of sufficient revenue for the carrier will not continue to result in poor service and frequent derailments, no matter whom the operator might be. Then AKMD will find its liability insurance cancelled and Potlatch will once again look for a new operator to provide emergency rail service.

7. So what is the answer? It is for the Board to deny AKMD’s petition and direct

DSR, UP, and Potlatch to negotiate an arrangement which contemplates compensatory rates for the railroad, permitting it to properly maintain the line and for Potlatch to ship its product in rail cars suitable for moving over the line.

VERIFICATION

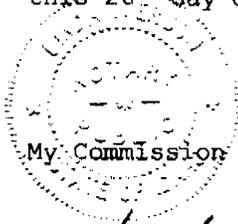
STATE OF IDAHO )  
 )  
CITY OF CALDWELL ) SS  
 )  
COUNTY OF CANYON )

GILBERT A. GILLETTE, being duly sworn according to law, hereby deposes and states that he is authorized to make the Verification, has read the foregoing document, and knows the facts asserted therein are true and accurate as stated, to the best of his knowledge, information and belief.



Subscribed and sworn to before me, a Notary Public, in and for the City of Caldwell, County of Canyon, in the State of Idaho this 26<sup>th</sup> day of 2004.

  
Notary Public



My Commission expires:

11/2004

## CONDENSED VITA

### GILBERT A. GILLETTE

- PRESENT . Retired, except as follows:
- . Director of a company that owns regional and short line railroads.
  - . Director, Noble Company Properties, Grand Haven, Mi.
  
  - . Locomotive Engineer Trainer, Supervisor of Locomotive Engineers, Rules Examiner, several regional rail lines.
  - . Consultant to short line and regional railroads.
  
  - . Clear major derailments by contract.
  
  - . Certified locomotive engineer, occasionally fill temporary vacancies on five regional railroad companies.
- 90s . Co-owner, co-founder, President and Chief Operating Officer, Rio Grande Pacific Corporation, Ft. Worth, Tx., owners, operators and maintainers of regional and short line railroads.
- . President and Chief Operating Officer, Idaho Northern & Pacific Railroad, Emmett, Id.
  
  - . Executive Vice President, Wichita, Tillman & Jackson Railway Company, Wichita Falls, Tx.
  
  - . Secretary/Treasurer, Nebraska Central Railroad Company, Norfolk, Ne.
  
  - . Principal, Trax Engineering & Associates, Inc., Ft. Worth, Tx., engineers and consultants to the railway industry.
- 80s . Founder, President & Chief Operating Officer, Brownsville & Rio Grande International Railroad, Brownsville, Tx.
- . President & Chief Operating Officer, Dakota, Missouri Valley & Western Railroad Company, Inc., Bismarck, N. D. (for start-up year only, turn-key startup).

- two -

- 80s  
(Con't.) . Vice President Operations & Maintenance, Minneapolis,  
Northfield & Southern Railway, Inc., Minneapolis, Mn.
- 70s . Assistant Vice President, Transportation Group, Soo  
Line Railroad Company, Minneapolis, Mn.
  - . General Manager - Transportation, Soo Line Railroad  
Company, Minneapolis, Mn.
  - . Assistant General Superintendent, Soo Line Railroad  
Company, Minneapolis, Mn.
  - . Superintendent Transportation Services – System,  
Soo Line Railroad Company, Minneapolis, Mn.
- 60s . Division Operations Supervisor, Trainmaster and  
Rules Examiner, Pennsylvania & Susquehanna  
Divisions, The Delaware & Hudson Railroad  
Corporation, Scranton, Pa.
  - . Division Operations Supervisor, Trainmaster and  
Rules Examiner, Susquehanna Division, The  
Delaware & Hudson Railroad Corporation, Oneonta,  
N. Y.
  - . Assistant Trainmaster – Road Foreman, The Delaware  
& Hudson Railroad Corporation, Rouses Point, N. Y.
- 50s . Intermittent Operating & Maintenance Positions,  
Education, Military Service:
  - # Started June, 1950, as trackman for Delaware &  
Hudson Railroad Corporation, Duanesburg, N. Y.
  - # Worked for various eastern carriers and  
American Locomotive Company.
  - # Completed B. S. Degree, University of  
New Hampshire.

- three -

# Veteran, 10<sup>th</sup> Mountain Infantry Division.

- PAST  
(OTHER)
- . Chairman, Operating & Maintenance Committee,  
The American Short Line Railroad Association (80s).
  - . Director, Southwest Region, The American Short Line  
Railroad Association (80s).
  - . Director (for Soo Line), Belt Railway of Chicago (70s).
  - . Director (for Soo Line), Lake Superior Terminal & Transfer  
(70s).

COMMUNITY ACTIVITIES, PRESENT & PAST:

- . United Methodist Church:
  - # Lay Leader.
  - # Certified Lay Speaker.
  - # Chairman, Administrative Board.
- . Past President, Russell H. Conwell Toastmasters Club,  
Minneapolis, Minnesota.

PERSONAL:

- . Married to Dolores since 1954.
- . Daughter Martha, Captain, United States Navy.
- . Son Michael, Pulmonary Critical Care Physician,  
Massachusetts General Hospital.
- . And always a couple of old hunting dogs hanging around.

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Vita condensed and updated 02/24/04.

Address:

G. A. Gillette  
15378 Rosewood Street  
Caldwell, Id. 83607  
Gil\_Gillette@bigfoot.com

Communications:

Voice: (208) 455-5017  
Fax: (208) 455-5018  
Email:

## AFFIDAVIT OF LOUIS M. SCHILLINGER

Louis M. Schillinger, being duly sworn, deposes and states as follows:

1. My name is Louis M. Schillinger. I am President and Chief Executive Officer of United Shortline Insurance Services, Inc (“USI”). My office address is 8265 North Van Dyke, Port Austin, MI 48467. After some 25 years in the insurance industry, I established USI in 1987 to satisfy a growing need for short line railroad insurance that was not being met by existing companies. Today, USI serves the American short line industry by acting as the managing general agent for short line railroad insurance. What that means is that USI secures liability insurance for short line railroad clients from commercial insurance carriers, obtains reinsurance for those carriers, issues the insurance policies, rates and underwrites coverage, and arranges for the handling and payment of claims. USI currently handles the insurance needs of about 170 short line railroad clients, representing about one-third of the short line industry. Delta Southern Railroad, Inc. (“DSR”) is one of USI’s clients.
2. As DSR’s insurance agent, I am intimately familiar with DSR’s insurance needs and loss history. It is my understanding that UP has notified DSR that it is in default on its lease of a line of railroad known as the “Warren Line” because of, among other matters, loss of insurance. It is my further understanding that another short line railroad, Arkansas Midland Railroad Company, Inc. (“AKMD”), has recently filed a request with the federal Surface Transportation Board for an “emergency rail service order” to

assume DSR's operations over the Warren Line. One of the bases for AKMD's request is DSR's alleged lack of insurance.

3. My purpose in providing this statement is to set the record straight in connection with some faulty information provided the Board by AKMD or the Union Pacific Railroad ("UP") or DSR's customer, Potlatch Corp.
4. DSR recently (January 20, 2004) lost derailment and bill of lading insurance coverage. To be clear, DSR continues to carry the normal general liability and other forms of coverage short line railroads normally have, including Federal Employers Liability, Operational & Premises Liability, Evacuation, & Limited Pollution. The only portion of the "normal" liability coverages deleted at this renewal are Bill of Lading and Foreign Rolling Stock Cover. USI has obtained this coverage through Lloyd's of London as DSR's renewal carrier. A summary of the insurance binder is attached. The reason for DSR's loss is quite simple: to its claims history over the past two years. Specifically, DSR has had an excessive number of derailments and overturned freight cars on the Warren Line. This number is excessive both under short line industry standards and in comparison to its much better loss rate on its other two lines.
5. Whenever one of USI's clients files a claim, it is USI's standard practice to employ a claims investigator, Railway Claims Service, to ascertain the causes for the claim. In DSR's case, our investigator along with Mr. Wainright, attributed these derailments to either of two causes: overloaded off-balance woodchip cars or freight cars that were heavier

than the track could tolerate and unexpected handling of “286” cars. Regarding overloading, our investigator found that Potlatch Corp. had loaded the cars in such a manner that there was more product on one side of the car than on the other due to the fact that the shipper’s plant-site loading mechanism is off-center. As a result, cargo in improperly loaded cars tended to shift when the car was going around a curve resulting in a greater than normal chance for derailling. The shipper could correct this condition by either loading woodchips to a point no more than 3” below the top of the car or by changing the position of either the conveyor or the loading track at the plant. Additionally, our investigator as well as Mr. Wainright, has informed me that at least two derailments occurred at the UP interchange when 286,000 pound freight cars were pushed onto track incapable of handling such a heavy car. While the Line might be able to handle an individual 286,000 car, the impact of these heavy cars is cumulative over time. Today’s successful 286,000 pound car movement might cause wear and tear resulting in tomorrow’s derailment of a lighter car.

6. With respect to DSR’s need for foreign rolling stock and bill of lading coverage, I have spent a couple of days in London, England, and in the U.S. attempting to locate suitable replacement coverage. Currently I have a proposal to Fireman’s Fund Insurance Company to provide that coverage with a \$150,000 deductible. I expect to know Friday of this week whether Fireman’s Fund will indeed provide that coverage. I am reasonably

hopeful. Should we be successful, I will furnish appropriate documentation.

7. As UP knows, the insurance market is currently extremely “tight” with only four insurance carriers offering cover to Railroads (AIG, Zurich, Lloyds (USI), and Arch) However, USI anticipates that there will be a new player entering the short line railroad insurance market within the next several weeks and USI is confident that this company would be able to provide DSR with derailment and bill of lading coverage.
8. It is my understanding that AKMD’s filing contains statements to the effect that UP has “assisted in seeking out such coverage” and has worked “extensively” with DSR to help it provide insurance coverage. If so, I have no knowledge of such efforts. I did talk on one occasion with UP’s insurance manager, a Wendy Whalen, and did have one message from her. While she did make some suggestions, they were things, which I had already tried without success. During my one call with her, DSR’s counsel suggested the possibility of putting DSR on UP’s coverage at DSR’s expense. UP promptly rejected this idea. I also understand that AKMD’s petition contains a statement to the effect that the consensus of all parties is that DSR will not likely be able to obtain insurance. I have never said or implied such pessimism regarding insurance. So it is my assessment that UP was not particularly helpful to DSR regarding its insurance needs.

9. Finally, it is my understanding that Potlatch Corp. has implied that DSR has not paid for cargo or Potlatch-owned rail cars it damaged. Although I cannot account for every item of damage, I will testify that DSR has been good at meeting its obligations for cargo damage or equipment damage claims. During the past 3 years, USI has paid \$649,284 in such claims.

•

VERIFICATION

STATE OF Michigan  
CITY OF Port Austin ) SS

Louis M. Schuller, being duly sworn according to law,  
hereby deposes and states that (s)he is authorized to make the  
Verification, has read the foregoing document, and knows the  
facts asserted therein are true and accurate as stated, to the  
best of (her)his knowledge, information and belief.

[Signature]

Subscribed and sworn to before me, a Notary Public, in and for  
the City of Port Austin in the State of Michigan this 26<sup>th</sup>  
day of February

[Signature]  
Notary Public

My Commission expires:

11/12/04

**AFFIDAVIT OF WILLIAM P. WAINRIGHT**

William P. Wainright, being duly sworn, deposes and states as follows:

1. My name is William Wainright. I am President (and with my wife Linda) sole owner of Delta Southern Railroad, Inc. ("DSR"), a class III short line railroad headquartered in Tallulah, LA. My office address is P.O. Box 1709, Madison Parish Port, Tallulah, LA 71282. As mentioned in the Reply to Petition to which this Affidavit is attached, DSR operates three disconnected rail lines in Arkansas and Louisiana. My wife and I have owned and managed DSR since we acquired the rail lines it operates from Delta Southern Railroad Company in 1999. I had previously served as that company's President from its inception in 1989. Prior to that I had worked in railroad operations successively for Seaboard Coast Line Railroad and CSX Transportation, Auto-Train Corporation, and the Transkentucky Transportation Company, a southern short line railroad.
2. As President of DSR, I am the person most familiar with and capable of addressing the ongoing service issues involving Union Pacific Railroad ("UP"), Potlatch Corporation ("Potlatch"), and Fulghum Fibres Company ("Fulghum"). In that connection, I have reviewed the Petition for Emergency Service Order filed by Arkansas Midland Railroad Company, Inc. ("AKMD") as well as the letter supplement it submitted on February 23, 2004. AKMD's Petition presents 10 principal allegations in support of its request to provide service over DSR's Warren Branch (hereafter "the Line"). I will respond to each point by point:

**1. DSR has “functionally” ceased operations on the Warren Line:**

**DSR response:** Although I am not sure what AKMD means by the term “functionally,” DSR has not ceased operations. Rather UP’s Warren Wilson has advised DSR to suspend operations until it obtains derailment and bill of lading insurance. UP’s letter to the STB dated February 20, 2004, submitted with AKMD’s Petition as Exhibit 3 states that “to our knowledge there has been no service on the Warren Branch for approximately two weeks.” I am attaching an email from Potlatch’s Ben Garner which states that we were going to move some rail cars but suspended loading upon learning that DSR did not have derail insurance and which states Potlatch’s plans to shift transportation to truck for three weeks. As discussed below, DSR is in the process of repairing defective track and obtaining derailment and bill of lading insurance. It has locomotives and personnel in place and is ready to resume service as soon as the customers are ready to return to using rail.

**2. No shipper on the line has received service for at least two weeks.**

**DSR response:** As recently as February 9, 2004, Fulghum attempted to use DSR’s service. It stopped loading on February 9 at Potlatch’s direction because Potlatch had been informed by Joel Blalock of UP that DSR lacked derailment insurance. Moreover, on-line shippers have made other arrangements for moving traffic (by truck for transloading to UP). DSR is prepared to resume railroad operations as soon as customers are ready to tender freight.

**3. Potlatch and Fulghum have been forced to divert their significant volumes of rail traffic to motor carriers.**

**DSR response:** As per instructions from Potlatch’s Ben Garner and Rick Warner, Potlatch has elected to divert its traffic to truck for three weeks. Potlatch has also directed Fulghum (which operates a woodchip mill under contract to Potlatch) to move its product by truck to the UP. As discussed above, DSR is prepared to resume rail service when shippers are ready to ship by rail.

**4. DSR is apparently facing significant financial difficulties.**

**DSR response:** DSR is a profitable company. Unfortunately, as discussed below, the per car revenues derived from operating the Warren Branch have not been adequate to permit DSR to provide service and maintain the Line at the appropriate level of maintenance for reliable service, let alone upgrade the Line to permit it to handle 286,000 freight cars or earn DSR’s cost of capital. DSR’s loss of derailment and bill of lading insurance was due to an excessive number of derailments (9 between March 2, 2003 and January 28, 2004) rather than financial problems. See, the Affidavit of Louis Schillinger submitted with the Reply.

**5. DSR recently lost its insurance coverage.**

**DSR response:** DSR has not lost insurance coverage. It lost insurance on derailments and bill of lading as of January 20, 2004. Its insurance agent is working diligently to obtain new coverage in those areas and is hopeful that new coverage will be in place within several days. In the meantime it is self insuring with \$220,000 line of credit. See, the Affidavit of Louis Schillinger submitted with the Reply. Recently, Trains Magazine ran an extensive article about how the use of 286,000 pound freight cars presents serious maintenance issues for short line railroads. A version of that article appearing at Trains' website ([www.trains.com](http://www.trains.com)) is attached to this statement. The article mentions that several short lines have been able to get financial assistance from their class I railroad connections on this issue. Unfortunately, UP has refused DSR that type of assistance.

**6. DSR has experienced numerous derailments on the Warren Line in recent months.**

**DSR response:** False. As the attached table shows, DSR has experienced 9 derailments between March 2, 2003, and January 28, 2004. There have been no derailments since then. These derailments have been caused by movement of 286,000 pound freight cars over the Line and overloaded woodchip cars. See, Affidavits of Louis Schillinger and Gilbert Gillette submitted with this Reply.

**7. DSR has failed to make effective and timely repairs.**

**DSR response:** I am attaching to my statement a table which shows the date of each derailment and the date the track was restored to operation. In no case was the Line out of service for more than two days. With operations temporarily suspended as of February 9, 2004, and in light of an FRA inspection finding 79 track defects, DSR has undertaken a major track program costing about \$90,000 to restore the Line to FRA class I condition. This program is about two-thirds complete. Once the rehabilitation program is finished, as it will be before mid March, 2004, DSR should be able to provide reliable service provided that customers do not order 286,000 pound freight cars or overload lighter cars. See, Affidavits of Louis Schillinger and Gilbert Gillette submitted with this Reply.

**8. After those derailments – usually undisclosed to the on-line shippers – DSR frequently has suspended operations for indeterminate periods.**

**DSR response:** I am attaching to my statement a table which shows the date of each derailment and the date the track was restored to operation. In no case was the Line out of service for more than two days. I am also attaching emails from DSR's Donna Harris to Potlatch advising them of derailments.

**9. UP has formally notified DSR of its default under the lease agreement**

**between the parties and indicated its intention to terminate the lease.**

**DSR response:** Under the terms of its lease, UP must provide notice by certified mail, return receipt requested. Although UP's John Gray wrote DSR on February 3 to advise that it considered DSR in default, the certified copy of the letter did not arrive at DSR's office until February 18. Accordingly, the parties are treating February 18 as the initial date for the "cure period." Under the lease, DSR has 30 days, or until March 18, to cure. The stated reasons for the notice of default are (1) failure to maintain the premises and (2) to obtain required insurance. DSR is diligently working to restore the line to a satisfactory condition and to obtain insurance. Once it satisfies those conditions, it will have satisfied Mr. Gray's letter. A copy of that letter is attached to this statement along with a record from the post office indicating March 18 as the certified letter's date of delivery.

- 10. DSR has indicated that it would restrict Potlatch's traffic to no more than three center-beam flat cars<sup>1</sup> in each DSR train.**

**DSR response:** DSR initially advised Potlatch for safety reasons it would only handle three center-beam flat cars per train (thrice weekly service with 45 cars per train). Once we resume service, we have revised our operating plan to operate five times per week with up to 30 cars per train and to move four center-beam flat cars per train for a total of 20 cars per week.

**Other matters:**

3. On February 23, 2004, I received a copy of a letter dated February 23, 2004, from AKMD's counsel addressed to the Board. AKMD attaches to that letter a copy of an inspection report prepared on Feb. 12, 2004, by the Federal Railroad Administration identifying 80 track defects. The letter also states that FRA inspectors directed that the last operable DSR locomotive on the Line be taken out of service and that DSR had taken out of service three other locomotives. The obvious implication is that DSR will not be able to resume service at any time in the foreseeable future.
4. Fortunately, the facts are otherwise. As discussed above, DSR is working

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<sup>1</sup> Needed for Potlatch's outbound lumber shipments.

assiduously to restore the Line to FRA class I track condition. That work should be complete on or before the end of the cure period. AKMD's locomotive statement is grossly in error. In fact FRA locomotive inspector William Spencer had ordered engine #107 to be taken out of service for 6 minor defects. A copy of his report is attached to this statement. DSR promptly made the repairs which took no more than 2 to 3 hours. As to the other engines, DSR has a total of 5 locomotives assigned to the Line. It voluntarily took the other four units out of service to save fuel and to prolong the amount of time before the next 30 day inspection would be needed. These units are in satisfactory condition and can be restored to operation at any time.

5. As discussed above, the reasons for DSR's inability to maintain the Line to a condition that would reliably handle Potlatch's traffic are two fold: operational and financial. As discussed in the statements furnished by Lou Schillinger and Gil Gillette, the use of heavy or overloaded freight cars unnecessarily wears the track. Moreover, as Mr. Gillette has stated that the Line's sub soil conditions make this track especially hard to maintain. DSR has on several occasions discussed with Potlatch to no avail the need to refrain from overloading cars or ordering 286,000 pound cars. I am attaching to this statement several memos and a letter to Potlatch documenting this fact. Moreover, DSR has previously discussed with both UP and Potlatch the need for more revenue per car. DSR has not gotten a single rate increase (other than RCAF increases on lumber only) during the over 6 years it has been operating the Line. Under its lease with UP,

DSR has no right to take any action such as a surcharge to increase its revenues without UP's consent. In fact, UP has specifically rejected DSR's requests. DSR's ability to increase rates depends solely upon UP. I am attaching several emails with UP on the need for increases. For purposes of confidentiality I have deleted the figures but would be happy to provide them to the Board under seal if needed. I have also suggested to both Potlatch and UP the idea of imposing a surcharge on the Line with the revenues going to track maintenance and rehabilitation including work required to upgrade the Line to '286' standards. Both parties rejected this idea. I doubt AKMD or any other short line carrier would or could do any differently given the current economics of the Line.

6. With respect to the use of 286,000 pound cars, UP's Gary Johnson has asserted that only four out of a list of 188 cars moving for Potlatch during 2003 exceeded 268,000 pounds and that the "vast majority" of those cars weighed less than 263,000 pounds. The list of cars accompanying his February 10 letter shows that the same cars moved numerous times during the same date. For example car TR 273914 moved twice on September 6 and car TTZX 863447 moved three times on December 23, each time with varying weights. Of the 188 cars shown here, there were 69 duplications with varying weights per car. And it is important to note that these weights were based upon shipper provided estimates rather than actual weights. I am attaching some sample waybills (confidential information redacted) which states clearly "do not weigh-weight agreement."
7. Regarding Potlatch's loading practices, Potlatch has loaded woodchip cars

unevenly so that there is more product on the left side than the right. As a result, these cars ride hard on the left side bearing and will not negotiate left curves or dips at joints and have caused derailments. I am attaching two pictures which depict overloaded cars.

8. AKMD's Petition suggests that DSR has failed to reimburse shippers for damages they have incurred on account of cargo damaged in derailments. This is untrue. I am attaching copies of checks sent to Potlatch and Bradley Lumber.
9. The Board's regulations require the Petitioner to provide a summary of discussions with the incumbent carrier of its service problems and the reasons why the incumbent is unlikely to restore service within a reasonable period of time. To date, DSR has had no discussions at all with Petitioner, AKMD. With respect to Potlatch, DSR's normal line of communications with Potlatch is between DSR's Donna Harris and Bubba York of the Warren & Sabine River Railroad and Charles Safelo of Fulghum. Typically, I meet once per year with Potlatch's local managers. The last meeting took place in mid September 2003. We do talk on the phone and send emails on a regular basis. As recently as October 2003, Potlatch complimented Donna on the quality of DSR's service. A copy of that email is attached. But the first time that Potlatch expressed any serious concerns directly to DSR about the quality of its service was on a conference call which took place at the office of our Washington attorney around February 11 or 12. I stated that upon my return home, I wanted to schedule an appointment to meet with Potlatch officials. Upon my return, Potlatch preferred

to meet by telephone and advised me that they would work with UP. In conclusion, Potlatch has preferred to communicate its apparent dissatisfaction with DSR's service through UP and/or AKMD, but not directly to DSR. DSR is prepared to meet with Potlatch to resolve its service problems.



Feb-20-04 02:52pm From: Fletcher & Sippel LLC

312 252 2400

T-788 P.038/046 F-846

ben G GARNER, 12:10 PM 2/9/04, chip hauling

X-Sender: bggarner@warren.potlatchcorp.com  
X-Mailer: QUALCOMM Windows Eudora Version 5.2.0.9  
Date: Mon, 09 Feb 2004 12:10:01 -0600  
To: "Weisel; Dave" <Dave.Weisel@potlatchcorp.com>,  
"Hatch; Sue" <Sue.Hatch@potlatchcorp.com>  
From: Ben G Garner <Ben.Garner@potlatchcorp.com>  
Subject: chip hauling  
Cc: "Koulianos; Nick" <Nick.Koulianos@potlatchcorp.com>,  
"Warner; Rick" <Rick.Warner@potlatchcorp.com>,  
"York; Bubba" <Bubba.York@potlatchcorp.com>,  
"Bass; Mike" <Mike.Bass@potlatchcorp.com>,  
"Horne; Bill" <Bill.Horne@potlatchcorp.com>

FYI

We were going to try to load some rail cars lighter today and tomorrow to try and help get some lumber cars moved but found out this morning that DSRR did not have derail insurance. We had started loading cars but stopped, contacted our trucking contractors, and committed to them for three weeks work to assure us of getting chips moved. ben

Statement of Donna Harris

Monday - February 9, 2004

Charles Safelo, Manager Fulghum Fibers, called me at about 7:15 a.m. to let me know how excited he was that they were loading chip hoppers. He called me back at about 8:30 a.m. to let me know Potlatch had told him to stop loading rail cars and start loading trucks. I asked him why and he said Potlatch told him we didn't have derailment insurance. He told me to let him know if I heard anything.

I notified Bill Wainright of the conversation.

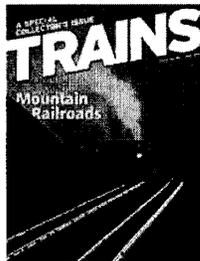


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### The short line problem

Little money, lots of infrastructure needs  
*by Bill Stephens*

Short lines and smaller regional railroads have always had a hand-to-mouth existence, and many pride themselves on getting by with more resourcefulness than resources.

But you can only live on the edge for so long. Sooner or later, ties splinter, rail wears out, and bridges need replacing. These are big-ticket items that many short lines and regionals simply can't afford. And this will be a problem in the coming years. A big problem.

Over the next decade, as the Class 2 and 3 railroads' infrastructure deteriorates after years of deferred maintenance, there will be nearly \$7 billion worth of capital needs on the nation's more than 500 short lines and regionals, according to a study jointly funded by the American Short Line and Regional Railroad Association and the Federal Railroad Administration.

Much of the money will be needed to upgrade track and bridges to support the industry standard 286,000-pound railcar.

Don't blame the short line or regional carrier for the predicament, though. Their lines were marginal before being spun off by the Class 1s. After all, if these branches weren't marginal or downright unprofitable for the big systems, then they wouldn't have been shed as excess mileage. And the big systems wouldn't have deferred maintenance for years before selling them.

Short lines and regionals, with their lower cost structures and customer focus, are able to make these castoff lines marginally profitable. They eek out enough money to pay for routine maintenance and keep their hand-me-down fleets of locomotives running – some long after they've become museum pieces.

But at the end of the day, there's no change left in their pockets to fund major capital investments.

#### Short lines like snowflakes

To a certain extent, this has always been a way of life on light-density branch lines. But the growth of Class 2 and 3 railroads means that more of the total U.S. rail mileage could face under-capitalization.

Between 1980 and 2000, Class 1s dropped 65,000 miles of light density routes. Much of the mileage – about 50,000 miles worth – is now operated by short lines.

Of the 546 non-Class 1s operating in 1999, 359 were formed in 1981 or later. They've been a success, of course, in keeping freight moving over the





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rails instead of the highways. But after two decades of minimal maintenance, few upgrades, and track problems inherited from the Class 1s, their physical plant is becoming a liability.

"Today, this problem is coming to a head because of a new element that is completely outside the control of the shortline industry – that is the introduction of the heavier 286,000-pound freight cars that have become the standard for the Class 1 industry," Frank Turner, president of the ASLRRA, told Congress in the spring of 2001.

"These cars cause significantly more stress and wear and tear on rail track and bridges. To handle these cars efficiently, light density lines can no longer put off major capital expenditures. If they don't find the money for that investment, their lines and their shippers will effectively be disconnected from the nation's main line railroad system."

Ed Hamberger, executive director Association of American Railroads, agreed in his testimony before Congress. "Absent outside sources of funding, many of these companies will be unable to upgrade their lines – which may eventually face abandonment," he said.

"If this happened, countless communities would be cut off from the national rail network, resulting in severe economic displacement."

There also would be severe economic displacement for the Class 1s.

Say what? After all, if the local short line has to shut down, its Class 1 connection would barely notice – much less miss – its paltry few hundred or thousand carloads per year.

But short lines are like snowflakes. Considered on its own, each is insignificant. Considered together, they add up to a major drift of traffic.

In fact, short lines and regionals originate or terminate more than a quarter of all railroad freight. That's not small potatoes.

#### Three sources of funding

Fortunately, help is on the way through a combination of FRA loans, a bill in Congress that would fund outright grants to small railroads, and assistance from Class 1s.

The FRA's \$3.5 billion Railroad Rehabilitation and Improvement Financing Program, or RRIF, was maligned because of delays in turning on the loan spigot. The program was approved by Congress in 1998, but no money was made available for nearly three years while the FRA drew up loan guidelines. But by mid-2001 the money – \$1 billion in loans earmarked for short lines and regionals – started to flow.

Before its merger with Dakota, Minnesota & Eastern, struggling carrier I&M Rail Link, whose financial situation was made more precarious by flood damage in 2001, received FRA approval for a \$100 million loan. The money helped the Midwest regional refinance its existing debt and launch a major five-year track improvement program. "This loan ensures quality rail traffic throughout Iowa and helps Iowa businesses and industries move their product efficiently to other parts of the country," said U.S. Sen. Charles Grassley of Iowa. "I&M will now have the opportunity to make significant improvements to its service."

More than 20 railroads have expressed interest in the program, under which the FRA acts as a lender of last resort when railroads are refused by private lenders. Five railroads – the Tex-Mex; Arkansas & Missouri; Dakota, Minnesota & Eastern; Mt. Hood of Oregon; and Livonia, Avon & Lakeville of New York – requested a total of \$140 million, and are at various stages in the application process, according to the FRA.

Meanwhile, a bill in Congress, H.R. 1020, would provide small railroads with

outright grants for infrastructure improvements, particularly those needed to support "286" cars. The three-year program, if approved, would earmark \$350 million a year for three years for direct grants. The bill was approved by the House Transportation Committee in 2001, but has yet to come to a vote on the floor. It enjoys bipartisan support, however.

"Certainly the large railroads will benefit from passage of the bill and stabilization of light density rail infrastructure," Turner told Congress. "One way to think of the more than 500 shortline and regional railroads...is as a very big customer of the mega-carriers. We market business, gather traffic from remote locations and tender it to the AAR member Class 1 railroads....If we fail, that traffic will be lost to the highways and waterways."

The third piece of the puzzle is the various forms of assistance the Class 1s sometimes give their feeder lines.

Burlington Northern Santa Fe and Canadian National, for example, have provided financial muscle to important feeder lines.

In June 2001, BNSF partnered with Iowa Interstate and the Iowa Department of Transportation to beef up its busiest 78 miles of track to handle "286" cars. The DOT provided \$2.1 million, with BNSF and Iowa Interstate sharing the balance of the costs.

"Our commitment illustrates our willingness to invest in our connecting regional and shortline partners, to permit their handling of heavy 286,000-pound cars, where we find economic justification for doing so," said Pete Rickershauser, BNSF's vice president, network development.

In 2000, CN agreed to provide \$2.4 million to the Columbus & Greenville Railway in Mississippi so it could handle "286" cars to and from a major grain shipper. Over the next decade, the shipper is using CN to route a substantial portion of grain and grain products to its plant in Indianola, Miss.

Union Pacific has helped critical feeder lines by providing materials on occasion, UP spokesman John Bromley says. And Norfolk Southern has, on a case-by-case basis, partnered with some short lines to replace bridges or other infrastructure.

These investments by the Class 1s are a win-win situation. The short line's business is boosted or saved, and the Class 1 gets the long haul with minimal investment in a short line.

When combined, these approaches – loans, grants, and Class 1 helping hands – should alleviate the capital crunch on some feeder lines, particularly those that the Class 1s deem critical.

To be sure, there will be economic Darwinism at work as short lines face the future. Some short lines – particularly those dependent on a single customer or commodity, or with exceptionally light traffic – may no longer make economic sense, and will not survive.

But it's clear that the health of the entire rail industry depends, in part, on how well the little guys are able to beef up their track and bridges.



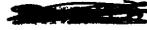
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<u>DATE</u>	<u>M. P.</u>	<u>DESCRIPTION</u>	<u>DATE IN SERVICE</u>
03-02-03	446	3 lbs/1chip Turned Over In Left Curve-North Side	03-03-03
04-15-03	432	2 Chips Derailed In Left Curve - Cars Rc-Railed	04-15-03
04-16-03	432	1 Chips Derailed In Left Curve - Cars Re-Railed	04-16-03
07-08-03	437	3 Lbr. Derailed In Left Curve - Cars Re-Railed	07-08-03 Potlatch on Holiday 4th-6 <sup>th</sup>
09-03-03	432	4 Chips Derailed In Left Curve - Cars Rc-Railed	09-04-03
11-14-03	433	9 Chips Turned Over In Left Curve - North Side	11-15-03
01-09-04	433	1 Lbr/2Chips Derailed In Left Curve-Cars Rc-Railed	01-11-04
01-22-04	432	3 Chips Turned Over In Left Curve - North Side	01-23-04
01-28-04	437	1 Lbr/1Chip Turned Over In Left Curve - North Side	01-30-04

**Bubba York, 10:06 AM 1/13/04, Service**

To: "Bubba York" <Bubba.York@potlatchcorp.com>  
From: Bubba York <Bubba.York@potlatchcorp.com>  
Subject: Service  
Cc:  
Bcc:  
Attached:

We detailed yesterday, nothing bad but some track damage. This caused us not to spot cars into 806. I should be able to do that tonight.

Donna

GLJOHNSO@up.com, 10:21 AM 1/13/04, Day 2 Production lost

To: GLJOHNSO@up.com  
From: Bubba York <Bubba.York@potlatchcorp.com>  
Subject: Day 2 Production lost  
Cc: TAFRODYN@up.com, "Garner, Ben" <Ben.Garner@potlatchcorp.com>, "Hatch, Sue" <Sue.Hatch@potlatchcorp.com>, "Warner, Rick" <Rick.Warner@potlatchcorp.com>, JTBLALOC@up.com, Chuck\_Pearson@up.com, KRPAIGE@up.com  
Bcc:  
Attached:

Gary,  
As you probably know by now, the DSRR didn't make it to WSR with ANYTHING last nite. I received an e-mail from Donna this morning that they had a derailment yesterday. Supposedly nothing major, but had track damage.

We will be out again today at the Southern plant.

This just reinforces our position that the quality and quantity of service does not meet Potlatch's needs. By that I mean, we understand that unfortunate circumstances ARE going to happen, all the more reason to have regular train service with equipment supplied regularly.

Thank you,  
Bubba

Printed for Bubba York <Bubba.York@potlatchcorp.com>

1

Donna Harris, 12:53 PM 1/15/04, service

✓To: Donna Harris <dharris@colla.com>  
 From: Bubba York <Bubba.York@potlatchcorp.com>  
 Subject: service  
 Cc: "Weisel, Dave" <Dave.Weisel@potlatchcorp.com>, "Warner, Rick" <Rick.Warner@potlatchcorp.com>, "York, Bubba" <Bubba.York@potlatchcorp.com>, Joel Blalock <JBlaloc@UP.com>, Gary Johnson <GLJOHNSO@UP.com>, "Mai, Bob" <Bob.Mai@potlatchcorp.com>  
 Bcc:  
 Attached:

Donna-Is the derailment from this week still holding up your line from switching the Warren plant? We need some answers. There are approximately 60 cars waiting to be pulled, and it's very critical these get moved now. I have lumber cars that were shipped out of the mill on January 2nd, that are still on your line and have not been interchanged with the UP. I've tried to get a hold of Bill Wainright but he has not returned my calls. Please have Bill call me immediately @509-323-7957. We will have to resort to trucking material to our customers; plus discounting their lumber which is sitting on railcars not moving, this is an added cost that we will pass on to you for the delays in service.

7



February 3, 2004

Mr. William P. Wainwright  
President  
Delta Southern Railroad Company  
Madison Parish Port  
Tallulah, Louisiana 71282

*Re: Notice of Default and Demand for Cure - September 21, 1997 Lease Agreement  
between Union Pacific Railroad Company ("UP") and Delta Southern Railroad Company  
("DS"); Our File No. C-18352*

Dear Mr. Wainwright:

This notice confirms your several telephone conversations with Warren C. Wilson concerning the above-referenced Lease. Wendy S. Whalen, Director of Insurance for UP, has reviewed the insurance binder provided by DS on January 22, 2004. Based on that review, said binder does not provide the insurance coverage required under Section 12 of the Lease. In addition, based on the recent derailment history on the Leased Premises and our inspection of the Leased Premises, it is clear that the Leased Premises have not been maintained to the minimum FRA Class 1 standards required under Section 6.01 of the Lease. Further, DS has not, at its own cost and expense, maintained the Leased Premises to a standard that is sufficient to continue rail freight service commensurate with the needs of the rail users located thereon as required by Section 6.01. For these reasons, UP has no choice but to place DS on notice that in accordance with Section 19.01(c) of the Lease, DS is in material breach of Sections 6 and 12 of the Lease in that DS has failed to properly maintain the Leased Premises and obtain the insurance coverage required by the Lease in order for DS to provide the common carrier service by railroad contemplated under the Lease.

In accordance with Section 19.01(c) of the Lease, DS will have a period of 30 days from its receipt of this letter to cure the defaults described above. If, at the end of the 30-day period, DS has not cured the breach, UP reserves the right to exercise such remedies as are available to it under the terms of the lease. If DS has received written notice of cancellation of its insurance coverage from its insurance underwriter or broker, please provide a copy of such notice by fax to UP immediately.

Very truly yours,

A handwritten signature in black ink, appearing to read "John T. Gray".

John T. Gray  
Executive Director, Interline Marketing

UNION PACIFIC RAILROAD  
1416 Dodge Street, Omaha, NE 68179  
ph: (402) 271-3450 fx: (402) 271-2438  
jgray@up.com



Track/Confirm - Intranet Item Inquiry - Domestic

Item: 7002 3150 0000 8145 2881

Destination	ZIP Code: 71284	City: TALLULAH	State: LA
Origin	ZIP Code:	City:	State:

Event	Date	Time	Location	Scanner ID
DELIVERED	02/18/2004	09:59	TALLULAH LA 71282	POSsys5003
<a href="#">Request Delivery Record</a>				
<a href="#">View Delivery Signature and Address</a>				
NOTICE LEFT	02/09/2004	09:37	TALLULAH LA 71284	L077421
ARRIVAL AT UNIT	02/03/2004	16:53	OMAHA NE 68108	L671227

Enter Request Type and Item Number:

Quick Search  Extensive Search

[Explanation of Quick and Extensive Searches](#)

Item Number:

Inquire on multiple items.

Go to the Product Tracking System Home Page.



Track/Confirm - Intranet Item Inquiry - Domestic

Item: 7002 1000 0905 4517 7063

Destination	ZIP Code: 71284	City: TALLULAH	State: LA
Origin	ZIP Code:	City:	State:

Event	Date	Time	Location	Scanner ID
DELIVERED	02/18/2004	09:59	TALLULAH LA 71282	POSSys5003
<a href="#">Request Delivery Record</a>				
<a href="#">View Delivery Signature and Address</a>				
NOTICE LEFT	02/17/2004	08:23	TALLULAH LA 71284	L077421

Enter Request Type and Item Number:

Quick Search  Extensive Search

[Explanation of Quick and Extensive Searches](#)

Item Number:

Inquire on multiple items.

Go to the Product Tracking System Home Page.

DEPARTMENT OF TRANSPORTATION  
FEDERAL RAILROAD ADMINISTRATION (FRA)

INSPECTION REPORT

OMB Approval No.: 2130-0509

Inspector's Name SPENCER, WILLIAM		Inspector's Signature 		Inspector's ID No. 83333	Report No. 41	Date yy mm dd 2004 2 23									
Railroad/Company Name & Address DELTA SOUTHERN RAILROAD COMPANY				R/C R	Division SYSTEM	RR/Co. Representative (Receipt Acknowledged) Name Title Signature									
RR/Co. Code DSRR		Subdivision		Codes		From Latitude									
Event City MOBILE	Codes 2420	Destination City & County		Codes	From Latitude										
State AR	05	City		From Longitude											
County DEBIA	C041	County		To Latitude											
Mile Post: From		To	Inspection Point: MCGEEH YARD			To Longitude									
Activity Code	215	223	229D	231	232			CARS							
Usage	3	1	1	4	4			3							
Item	Initials/Subject	Equipment/Track #	Type/Kind	49 CFR/USC	Defect Code	Subcode	Speed	Class	Train #/Site	SNFR*	RCL**	# of Occ.***	Activity Code		
1	DSRR	107	EMF	231	0140	D1			YARD	N	N	1	231		
Description UNCOUPLING LEVER HENT WILL NOT SAFELY AND REASONABLY FUNCTION AS INTENDED															
Violation Recommended Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>										Latitude:		Longitude:			
Written Notification to FRA of Remedial Action is: Required <input type="checkbox"/> Optional <input checked="" type="checkbox"/>										Railroad Action Code		Date (mm/dd/yyyy)		Comments on back? <input type="checkbox"/>	
Item	Initials/Subject	Equipment/Track #	Type/Kind	49 CFR/USC	Defect Code	Subcode	Speed	Class	Train #/Site	SNFR*	RCL**	# of Occ.***	Activity Code		
2	DSRR	107	EMF	231	0128	D1			YARD	N	N	1	231		
Description "R-R" SWITCHING SLIP DACK STOP OR KICK PLATE MISSING															
Violation Recommended Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>										Latitude:		Longitude:			
Written Notification to FRA of Remedial Action is: Required <input type="checkbox"/> Optional <input checked="" type="checkbox"/>										Railroad Action Code		Date (mm/dd/yyyy)		Comments on back? <input type="checkbox"/>	
Item	Initials/Subject	Equipment/Track #	Type/Kind	49 CFR/USC	Defect Code	Subcode	Speed	Class	Train #/Site	SNFR*	RCL**	# of Occ.***	Activity Code		
3	DSRR	107	EMF	229	0061	A6			YARD	N	N	1	229D		
Description "REAR" COUPLER WITH NO ANTI-CREEP PROTECTION															
Violation Recommended Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>										Latitude:		Longitude:			
Written Notification to FRA of Remedial Action is: Required <input type="checkbox"/> Optional <input checked="" type="checkbox"/>										Railroad Action Code		Date (mm/dd/yyyy)		Comments on back? <input type="checkbox"/>	

DEPARTMENT OF TRANSPORTATION  
FEDERAL RAILROAD ADMINISTRATION (FRA)

INSPECTION REPORT

OMB Approval No.: 2130-0509

(Continuation)

Inspector's ID No.	Report No.	Report Date											
83333	41	2/23/2004											
Item	Initials/Inspector	Equipment/Track #	Type/Kind	49 CFR/USC	Defect Code	Subcode	Speed	Class	Train #/Site	SNPR*	RCL**	# of Occ.***	Activity Code
4	DSSR	107	EMF	231	0144	D2			YARD	N	N	1	231
Description "FRONT" COUPLER HEIGHT ON LOCOMOTIVE LESS THAN 31 1/2" FROM TOP OF RAIL													
Violation Recommended Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>													
Written Notification to FRA of Remedial Action Is: Required <input type="checkbox"/> Optional <input checked="" type="checkbox"/>													
Railroad Action Code: _____ Date (mm/dd/yyyy): _____ Comments on back? <input type="checkbox"/>													
Item	Initials/Inspector	Equipment/Track #	Type/Kind	49 CFR/USC	Defect Code	Subcode	Speed	Class	Train #/Site	SNPR*	RCL**	# of Occ.***	Activity Code
5	DSSR	107	EMF	229	0045	R2			YARD	N	N	1	229D
Description EXCESSIVE ACCUMULATION OF OIL ON RIGHT SIDE OF FUEL TANK.													
Violation Recommended Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>													
Written Notification to FRA of Remedial Action Is: Required <input type="checkbox"/> Optional <input checked="" type="checkbox"/>													
Railroad Action Code: _____ Date (mm/dd/yyyy): _____ Comments on back? <input type="checkbox"/>													
Item	Initials/Inspector	Equipment/Track #	Type/Kind	49 CFR/USC	Defect Code	Subcode	Speed	Class	Train #/Site	SNPR*	RCL**	# of Occ.***	Activity Code
6	DSSR	107	EMF	229	0117	A2			YARD	N	N	1	229D
Description SPEED INDICATORS INOPERATIVE/OTHERWISE DEFECTIVE, CABLE BROKEN													
Violation Recommended Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>													
Written Notification to FRA of Remedial Action Is: Required <input type="checkbox"/> Optional <input checked="" type="checkbox"/>													
Railroad Action Code: _____ Date (mm/dd/yyyy): _____ Comments on back? <input type="checkbox"/>													
Item	Initials/Inspector	Equipment/Track #	Type/Kind	49 CFR/USC	Defect Code	Subcode	Speed	Class	Train #/Site	SNPR*	RCL**	# of Occ.***	Activity Code
7	DSSR	9256	H	231	0126	B1			YARD	N	N	1	231
Description "B" END PLATFORM BRACKET													
Violation Recommended Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>													
Written Notification to FRA of Remedial Action Is: Required <input type="checkbox"/> Optional <input checked="" type="checkbox"/>													
Railroad Action Code: _____ Date (mm/dd/yyyy): _____ Comments on back? <input type="checkbox"/>													

Monday - February 2, 2004

I called Charles Safelo, Manager of Fulghum, and stated to him the woodchip cars were still being loaded 2' to 3' above the top of the woodchip cars and also still piled over to one side of the car causing the car to ride hard on the side bearing making the car not turn freely as it negotiates curves to the left and has caused car to flip over to the north side of track, of which all derailments had occurred. Charles responded he had been instructed by Mr. Ben Garner of Potlatch to load as high on the car as he could until it falls off, and that was what he was doing.

I then called Ben about what Charles and I had discussed. Ben explicitly told me he would continue loading the cars with all the chips he could pile on each car. He stated that was what Cypress Bend, (the paper mill chips are delivered to), wanted to stay competitive with trucks and he would haul by truck if he couldn't do that. I asked Ben if he would be willing to lower the chips to crown the car no more than 6" to 7" above the top of each car, he replied no. We discussed the chips being loaded to one side of the car in place of being centered in the middle. Ben said Charles had prior complaints from DSR employees for the last couple of months and that Charles had found the track where cars are loaded under the chute had settled and had to be jacked. He said Charles had his employees jack on the track several times but now he had hired a contractor by the name of Robinson, who was coming within the next two weeks to properly jack and level the track. He also said they were making adjustments to the loading chute to center woodchips in the cars.

Statement of Donna Harris

Wednesday - February 4, 2004

I called Hubba York of the WSR and asked him how the lumber cars were ordered for Potlatch. He said he ordered the cars. I asked him if he realized UP was filling the orders with 286,000# cars and he stated that is what he was ordering. I then asked him if he knew DSRR was only capable of handling 263,000# and he said yes and that is also what the WSR is capable of handling. I told him he had to quit ordering those 286,000# cars and he said he was instructed by Rick Warner to order that size center beam lumber cars and would continue ordering that size.

I told Bill Wainright of our conversation.

Wednesday - February 4, 2004

I called Mr. Rick Warner of Potlatch concerning a prior conversation between Donna Harris, of DSR, and Mr. Bubba York, of WSR (Warren Saline RR), of 286# center beam lumber cars being ordered and loaded to full visible capacity. I related to Rick that Bubba said he had been instructed by Rick to order 286# cars from Union Pacific and Rick replied he would continue and if we had a problem with that we would need to take that issue up with Rick. Rick agreed they were ordering 286# cars. I told Rick these cars were too heavy and large for our rail line. He said Bubba places estimated weights on each car after it's loaded and placed on waybill to Union Pacific for movement under 263,000#. I said Rick these cars are 80' in total length and we have 39' jointed rail. The trucks on each end of the car will impact a joint on each end of the car because two 39' rails connected together makes the car strike the joint as they move causing damage to the rail and roadbed. I explained to Rick the jointed rail from Monticello to Dermott is N.C.C. (normal control cooled rail) rather than the preferred C.C. (control cooled) rail. The N.C.C. is more brittle than the C.C. and breaks easier. Rick said, how be it, we have been ordering and loading these cars with UP and shall continue to do so. If you have a beef I suggest you take it up with Union Pacific.

I called Mr. John Heffner, our Attorney that represents DSR with these type problems and related this foregoing information to him. I told John the shippers WSR and Fulghum were spotted with cars to load and we would pull cars if they load.

Friday - February 6, 2004

Mr. Rick Warner and Mr. Ben Garner of Potlatch called. Rick said he had been discussing the top heavy woodchip cars being shipped from the Fulghum loading facility with Ben and said that he and Ben would start loading chips again Monday, February 9, 2004, at Fulghum and chips would not be loaded higher than the top of the car. Rick said by us providing the lower level how many chip cars would it take per trip to move lumber per trip. I explained that we would need 27 chips and 3 lumbers per trip and WSR would provide service five times per week. Rick said that would be fine for now but later we might provide 20 cars per week, say March or April, can you handle that. I told him we had averaged only 11 cars per week for 2003, (car summary), but we would accommodate more cars or adjust another trip or something. Rick concluded the conversation.

We had discussed Potlatch not loading with Mr. John Heffner, our Attorney, and discussed two small shippers on line at Monticello receiving cars and these could get backed up in McGehee Yard, earlier this date. We decided to impose an Embargo that could be lifted in any 24-hour period. After the call from Potlatch saying they would resume loading Monday, February 9<sup>th</sup>, we lifted the Embargo that had not gone into effect.

Monday - February 9, 2004

Fulghum called at approximately 7:15 a.m. and said they were loading. About 8:30 a.m. they called back and said they had stopped loading due to Potlatch told them DSR did not have derailment insurance. After being told this I immediately called Mr. Rick Warner of Potlatch and inquired. He stated that Mr. Joel Blalock of Union Pacific had called and told him of the insurance and they again stopped loading cars. (See Ben Garner email of 2/9/04)

I called Mr. Warren Wilson, Sr. Manager of Short line Planning with Union Pacific and asked why did Joel say that when we had been told by him that we were okay to operate with the arrangement of insurance we have. His reply was have you seen the letter from Mr. John Gray? I said no. He said he would fax me a copy and then we could discuss the letter if I desired.

I called back and was told, as indicated in the letter, that we were in default and could not operate until it was cured.

Wednesday - February 18, 2004

Mr. Rick Warner of Potlatch called at 8:45 a.m. I began by thanking him for returning my call. I related to him that I was sorry, but we do have an issue of overloaded lumber and 286 cars as well as top heavy woodchip cars, but again I was willing to pull the lumber cars if they would load chip cars and we would get on with it. Abruptly he responded, Bill will you be around about 9:15 a.m.? I said yes I would, he said I'll call you then.

About 9:20 a.m. I received a call and it was Mr. Dave Weisel of Potlatch from Lewiston, ID. He said I am on here with Mr. Rick Warner, Mr. Ben Garner and Bubba York. I replied to him I guess you're returning my call, he said yes. I said what I was calling Rick for was to say I'm sorry and feel very remorseful, but again, we have locomotives and train crew ready to pull cars if you'll load them until we can work things out. Dave replied I'm talking with Union Pacific now. I said okay but how about loading cars? He said I want derailment insurance before you can pull cars. I explained that I was self insuring each train with a line of credit of \$220,000. He again replied well we're talking with UP now. I didn't understand his reply. I told them thank you gentlemen and hung up.

Monday - February 16, 2004

I called for Mr. Rick Warner of Potlatch at 9:00 a.m. and the receptionist told me he was on a vacation day. I left a message.

Tuesday - February 17, 2004

I called for Mr. Rick Warner of Potlatch at approximately 8:30 a.m. The receptionist said she saw him going down the hall to the back and would catch him. She picked up the phone and said he is going into a meeting and will call you right back.

At 2:45 p.m. I called for Rick again and the Receptionist said he was in his office with someone. I said okay just ask him to call, then immediately she broke into the conversation and asked you're with the railroad? I replied yes. She said hold on I know he will talk with you. She picked up and said Rick will call you back later.

February 6, 2004

**CERTIFIED MAIL, RETURN RECEIPT REQUESTED**

Mr. Rick Warner  
Mr. Ben Garner  
Potlatch Corporation  
P. O. Box 390  
Warren, AR 71671

Dear Gentlemen:

I am writing in my capacity as President of Delta Southern Railroad, Inc. ("DSR"). As you know, DSR provides railroad service to your company's plants located at Warren, AR, on its Warren Branch. DSR presently handles outbound loads of woodchips moving between those plants and another Potlatch plant located about 50 miles away at Cypress Bend, AR, on the connecting Union Pacific Railroad mainline.

During the past few months, DSR has been experiencing an alarming number of derailments over this line. DSR's subsequent investigation indicates that these derailments and the related track damage have been due to two causes: the use of 286,000 lb freight cars over a line incapable of handling cars weighing over 263,000 lbs and the overloading of 263,000 lb freight cars. Further investigation has revealed that your company has been ordering 286,000 lb cars from the Union Pacific Railroad despite the fact that DSR representatives have repeatedly advised you that the line is not presently capable of handling the heavier cars. Also, DSR representatives have discovered that Potlatch continues to load 263,000 lb. cars top heavy contrary to our previous instructions not to do so. Your practice of loading rail cars top heavy poses a serious safety hazard for both DSR and Potlatch personnel.

DSR desires to work with Potlatch to meet its transportation needs. However, Potlatch has complained to Union Pacific about the quality of DSR's service, particularly about its inability to handle heavier freight cars. Rather than work with us to resolve this situation, Potlatch has apparently resorted to trucking its lumber to Union Pacific's mainline at McGehee, AR, where the product is then loaded onto Union Pacific cars for movement to its final destination, and trucking its woodchips directly from the plants at Warren, AR to

the Potlatch Mill at Cypress Bend, AR. In view of this change in your shipping practices, DSR seeks to ascertain your future need for rail service. Simply stated, does Potlatch intend to continue using DSR's rail service or does it plan to ship by truck to the Union Pacific railhead and Cypress Bend?

Please send me a letter indicating Potlatch's plan within 10 days of receipt of my letter or your silence will be treated as an indication that you no longer intend to use DSR's service to meet your rail transportation needs at these plants.

Sincerely,

William P. Wainright  
President

**Donna Harris**

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**From:** "Donna Harris" <dharris@colla.com>  
**To:** "Gary Johnson" <gjohnso@up.com>  
**Sent:** Wednesday, December 10, 2003 11:28 AM  
**Subject:** RCAFU Increase

Gary,

DSRR has not received the yearly increase for woodchips at WSR or Fulghun since 1998. We have verified this information.

Donna

2/23/2004

**Donna Harris**

---

From: <GLJOHNSO@up.com>  
To: <dharris@colla.com>  
Sent: Wednesday, December 03, 2003 5:48 AM  
Subject: Re: Various Projects

Donna- At this point in time, no increase. You are getting RCAFU increases which is what all our shortline connections get. I do think you should be getting an increase on the lumber side out of Warren and I am waiting to hear back from the Lumber group on the request. Regarding Sterlington rates, I am still looking at that and I should be able to get back to you on that next week.

I have a call into Jeff Grinnell our Director of Joint Facilities on the derailment cost and have not heard back from him yet. What about the "rock cars"? Don't remember this one. Please refresh my memory.

Gary

"Donna Harris"  
<dharris@colla.co To: "Gary Johnson"  
<gljohnso@up.com>  
m> cc:  
Subject: Various Projects  
12/02/03 03:55 PM

Gary,

I need to know the status on everything we have been working on. How much increase will we get on the Warren Branch? What about the increase on the Sterlington Branch? Did you find out anything on the derailment invoice or the rock cars? Please let me know.

Donna

2/23/2004

**Donna Harris**

---

**From:** "Donna Harris" <dhharris@colia.com>  
**To:** "Gary Johnson" <gjohnso@up.com>  
**Sent:** Wednesday, October 29, 2003 1:51 PM  
**Subject:** Increased rates on speedsheet

Gary,

Listed are the rates I need to be increased:

**Monroe Interchange:**

All Other Commodities - from \$[redacted] pc to \$[redacted] pc

**McGeeho Interchange - Warron Branch:**

All Commodities - from \$[redacted] pc to \$[redacted] pc

Woodchips off WSR - from \$[redacted] pc to \$[redacted] pc

Please respond as soon as possible.

Thanks,  
Donna

2/23/2004

**Donna Harris**

---

**From:** "Donna Harris" <dharris@colla.com>  
**To:** "Gary Johnson" <gjohnso@up.com>  
**Sent:** Thursday, October 02, 2003 1:09 PM  
**Subject:** DSRF

Gary,

I previously requested our rate for "All Other Commodities" at Sterlington be raised to \$2.00 per car. There is no business utilizing this rate.

I would also like the status of our request to increase the rate we receive for lumber and woodchips originating on the WSR. We have requested the rate be increased to \$4.00 per car.

I am anxiously awaiting your response.

Thanks,  
Donna

2/23/2004

**Donna Harris**

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**From:** "Rick Warner" <Rick.Warner@potlatchcorp.com>  
**To:** "Donna Harris" <dharris@colla.com>  
**Sent:** Wednesday, October 15, 2003 7:22 AM  
**Subject:** Re: Chip Hoppers

Good job Donna, stay on top of them!

At 04:59 PM 10/14/03, you wrote:

>Sue,  
>  
>I ran empties yesterday and I did not have enough to give WSR any chip  
>hoppers. This is due to the fact that Cypress Bend is not unloading  
>enough cars. I have 5 hoppers in McGehee and I will receive 8 tonight. I  
>won't have enough for WSR again. Do you know what the problem is? I just  
>wanted someone to know the situation.  
>  
>Thanks,  
>Donna Harris

2/23/2004

UNION PACIFIC RAILROAD COMPANY



GARY L. JOHNSON  
SR. VP - SHORTLEAVE DEVELOPMENT  
RIVERVIEW MARKET PRG

1418 DODGE STREET - Room 1110  
Omaha, NE 68179  
(402) 271-5112

February 10, 2004

Mr. Bill Wainwright  
President  
Delta Southern Railroad  
P.O. Box 1709  
Madison Parish Port  
Tallulah, Louisiana 71282

Dear Bill:

RE: Claim of Overweight cars

Yesterday during our call you again mentioned that the reason for the derailments which lead to service failures on the Warren branch was due to the lumber cars being loaded at 286,000 lbs. While the cars we use in this lumber service are 73 foot cars that do have a capacity of 286,000 lbs (lading plus tare) they never reach the maximum weight because the dried Southern Yellow Pine lumber produced at the mill cannot take full advantage of the weight carrying capacity of the car. As I mentioned to you during the call we have looked at all the lumber cars that have been humped where they would also go across a scale and none of the 188 cars were at 286,000. In fact, our records indicate that only 4 cars out of 188 were above 268,000 and the vast majority of the remaining cars were under 263,000. I am attaching the data for your review. I would suggest that you contact Rick Warner if you want the weights on the loaded woodchip cars as I understand that before a car is unloaded at the Cypress Bend paper mill it is weighed. Potlatch has advised us that none of these cars were overloaded.

Sincerely,

Gary

2003 POTLATCH SHIPMENTS FROM WARREN, AR  
LUMBER LOADS WEIGHED ON UPPER SCALE

1	WSR	AR	WARREN	20	L	05-Feb-03	558654924	TTZX	862973	FLATCB73	273600
2	WSR	AR	WARREN	20	L	31-Jan-03	557469073	TTZX	862247	FLATCB78	271200
3	WSR	AR	WARREN	20	L	01-May-03	574867842	TTZX	862283	FLATCB73	269400
4	WSR	AR	WARREN	20	L	22-Apr-03	573229045	TTZX	856103	FLATCB73	269100
5	WSR	AR	WARREN	20	L	14-Mar-03	565548008	CRLE	20723	FLATCB73	267900
6	WSR	AR	WARREN	20	L	13-Jun-03	583214040	ORLE	20661	FLATCB73	267700
7	WSR	AR	WARREN	20	L	30-Jan-03	557458945	CRLE	20731	FLATCB73	267500
8	WSR	AR	WARREN	20	L	07-Feb-03	558895456	TTZX	861572	FLATCB73	267500
9	WSR	AR	WARREN	20	L	17-Nov-03	613368218	CRLE	20729	FLATCB73	267500
10	WSR	AR	WARREN	20	L	02-Apr-03	569182856	TTZX	861942	FLATCB73	267200
11	WSR	AR	WARREN	20	L	16-Apr-03	572184116	LW	74089	FLATCB73	267200
12	WSR	AR	WARREN	20	L	02-Apr-03	569182838	CRLE	20639	FLATCB73	267100
13	WSR	AR	WARREN	20	L	16-May-03	577857213	HLSC	2322	FLATCB73	267100
14	WSR	AR	WARREN	20	L	03-Oct-03	604696280	ATW	50057	FLATCB73	266900
15	WSR	AR	WARREN	20	L	16-Sep-03	601517540	TTZX	861536	FLATCB73	266600
16	WSR	AR	WARREN	20	L	03-Oct-03	604696280	ATW	50057	FLATCB73	266400
17	WSR	AR	WARREN	20	L	14-Feb-03	560236777	LW	74532	FLATCB73	265500
18	WSR	AR	WARREN	20	L	14-Feb-03	560236782	TR	274175	FLATCB73	265500
19	WSR	AR	WARREN	20	L	14-Feb-03	560236787	TR	274158	FLATCB73	265400
20	WSR	AR	WARREN	20	L	30-Apr-03	574623760	LW	74108	FLATCB73	265400
21	WSR	AR	WARREN	20	L	14-Jul-03	568827810	TTZX	862458	FLATCB73	265200
22	WSR	AR	WARREN	20	L	21-Feb-03	561538575	HLSC	3070	FLATCB73	265100
23	WSR	AR	WARREN	20	L	03-Mar-03	553788516	TTZX	862940	FLATCB73	265100
24	WSR	AR	WARREN	20	L	08-Aug-03	593795487	CRLE	20723	FLATCB73	265100
25	WSR	AR	WARREN	20	L	10-Nov-03	611987214	UP	274424	FLATCB73	265000
26	WSR	AR	WARREN	20	L	18-Aug-03	595601582	CRLE	20738	FLATCB73	264900
27	WSR	AR	WARREN	20	L	23-Jan-03	555865352	TTZX	856123	FLATCB73	264800
28	WSR	AR	WARREN	20	L	17-Feb-03	560868626	HLSC	3114	FLATCB73	264800
29	WSR	AR	WARREN	20	L	30-Sep-03	604488067	TR	274112	FLATCB73	264800
30	WSR	AR	WARREN	20	L	01-Oct-03	604434634	TTZX	856373	FLATCB73	264800
31	WSR	AR	WARREN	20	L	29-Oct-03	608986664	CRLE	20839	FLATCB73	264800
32	WSR	AR	WARREN	20	L	26-Jul-03	58726688	TTZX	862365	FLATCB73	264600
33	WSR	AR	WARREN	20	L	06-Sep-03	595845508	TR	273914	FLATCB73	264100
34	WSR	AR	WARREN	20	L	08-Sep-03	600121682	TTZX	863248	FLATCB73	263900

2003 POTLATCH SHIPMENTS FROM WARREN, AR  
LUMBER LOADS WEIGHED ON UPRR SCALE

35	WSR	AR	WARREN	20	L	19-Sep-03	601925864	TTZX	856177	FLATCB73	263800
36	WSR	AR	WARREN	20	L	01-Oct-03	604434629	CRLE	20738	FLATCB73	263700
37	WSR	AR	WARREN	20	L	02-Oct-03	604696236	TTZX	86282	FLATCB73	263500
38	WSR	AR	WARREN	20	L	06-Feb-03	588655351	TTZX	862683	FLATCB73	262700
39	WSR	AR	WARREN	20	L	02-Oct-03	604696236	TTZX	856282	FLATCB73	262600
40	WSR	AR	WARREN	20	L	04-Sep-03	599210749	CRLE	20729	FLATCB73	262400
41	WSR	AR	WARREN	20	L	02-Oct-03	604696236	TTZX	856282	FLATCB73	262400
42	WSR	AR	WARREN	20	L	29-May-03	560191754	TTZX	861344	FLATCB73	262400
43	WSR	AR	WARREN	20	L	11-Aug-03	594708373	HLS	2351	FLATCB73	262400
44	WSR	AR	WARREN	20	L	27-Jun-03	585861446	TTZX	864115	FLATCB73	262100
45	WSR	AR	WARREN	20	L	09-Sep-03	599845508	TR	273914	FLATCB73	261700
46	WSR	AR	WARREN	20	L	04-Mar-03	563787558	TTZX	863260	FLATCB73	261200
47	WSR	AR	WARREN	20	L	10-Jul-03	588426196	CHTT	273237	FLATCB73	261100
48	WSR	AR	WARREN	20	L	16-Sep-03	601333811	TTZX	861352	FLATCB73	260800
49	WSR	AR	WARREN	20	L	29-May-03	560191754	TTZX	861344	FLATCB73	260600
50	WSR	AR	WARREN	20	L	11-Jul-03	588426186	HLS	2201	FLATCB73	260600
51	WSR	AR	WARREN	20	L	23-Oct-03	608623347	CRLE	7483	FLATCB73	260500
52	WSR	AR	WARREN	20	L	21-May-03	578763023	TR	274168	FLATCB73	260200
53	WSR	AR	WARREN	20	L	06-Aug-03	593795282	TTZX	862456	FLATCB73	260000
54	WSR	AR	WARREN	20	L	30-Sep-03	604046620	TTZX	866250	FLATCB73	260000
55	WSR	AR	WARREN	20	L	29-Sep-03	602104789	HLS	3079	FLATCB73	259900
56	WSR	AR	WARREN	20	L	09-Apr-03	569600470	WCRC	20043	FLATCB73	259800
57	WSR	AR	WARREN	20	L	02-Jul-03	566824339	CRLE	20729	FLATCB73	259700
58	WSR	AR	WARREN	20	L	24-Feb-03	562014218	TTZX	861203	FLATCB73	259600
59	WSR	AR	WARREN	20	L	25-Jul-03	591035973	LW	75045	FLATCB73	259600
60	WSR	AR	WARREN	20	L	09-May-03	575016976	TTZX	862978	FLATCB73	259400
61	WSR	AR	WARREN	20	L	24-Jun-03	585188079	CRLE	20722	FLATCB73	259400
62	WSR	AR	WARREN	20	L	30-Sep-03	604046620	TTZX	856250	FLATCB73	259200
63	WSR	AR	WARREN	20	L	10-Dec-03	618014479	TTZX	862224	FLATCB73	259200
64	WSR	AR	WARREN	20	L	31-Mar-03	566716138	CHTT	273133	FLATCB73	259100
65	WSR	AR	WARREN	20	L	05-Feb-03	563655349	ATW	50041	FLATCB73	259000
66	WSR	AR	WARREN	20	L	10-Dec-03	618014479	TTZX	862224	FLATCB73	258700
67	WSR	AR	WARREN	20	L	10-Dec-03	616014475	TTZX	862224	FLATCB73	258600
68	WSR	AR	WARREN	20	L	23-Dec-03	618434659	SERA	73005	FLATCB73	258600

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2003 POTLATCH SHIPMENTS FROM WARREN, AR  
LUMBER LOADS WEIGHED ON UPRR SCALE

69	WSR	AR	WARREN	20	L	25-Jul-03	591035973	LW	75045	FLATCB73	258400
70	WSR	AR	WARREN	20	L	28-Aug-03	597955782	TTZX	863216	FLATCB73	258400
71	WSR	AR	WARREN	20	L	14-Jan-03	553976380	TTZX	861700	FLATCB73	258300
72	WSR	AR	WARREN	20	L	24-Jan-03	556075402	TR	165542	FLATCB73	258200
73	WSR	AR	WARREN	20	L	10-Jul-03	588426203	TTZX	856226	FLATCB73	258060
74	WSR	AR	WARREN	20	L	21-Jan-03	555406873	ATW	50061	FLATCB73	257700
75	WSR	AR	WARREN	20	L	18-Jul-03	589709275	CRLE	20722	FLATCB73	257700
76	WSR	AR	WARREN	20	L	07-Oct-03	605632808	HLSC	2215	FLATCB73	257700
77	WSR	AR	WARREN	20	L	30-Sep-03	604046620	TTZX	856250	FLATCB73	257600
78	WSR	AR	WARREN	20	L	21-Nov-03	614927998	CRLE	20731	FLATCB73	257100
79	WSR	AR	WARREN	20	L	09-May-03	576439276	CHTT	273921	FLATCB73	257000
80	WSR	AR	WARREN	20	L	11-Jul-03	588426186	HLSC	2201	FLATCB73	257000
81	WSR	AR	WARREN	20	L	23-Oct-03	609479236	TTZX	863139	FLATCB73	257000
82	WSR	AR	WARREN	20	L	08-Oct-03	605633245	ATW	55086	FLATCB73	256800
83	WSR	AR	WARREN	20	L	18-Aug-03	595172483	CRLE	20723	FLATCB73	256700
84	WSR	AR	WARREN	20	L	05-Mar-03	563788726	ACK	20890	FLATCB73	256600
85	WSR	AR	WARREN	20	L	28-Dec-03	521852814	CHTT	273028	FLATCB73	256600
86	WSR	AR	WARREN	20	L	14-Jan-03	553976380	TTZX	861700	FLATCB73	256400
87	WSR	AR	WARREN	20	L	08-Oct-03	605633246	ATW	55086	FLATCB73	256300
88	WSR	AR	WARREN	20	L	18-Jul-03	589709276	CRLE	20839	FLATCB73	256200
89	WSR	AR	WARREN	20	L	31-Dec-03	622076344	NOKL	733663	FLATCB73	256100
90	WSR	AR	WARREN	20	L	08-Apr-03	570297771	CRLE	20731	FLATCB73	255900
91	WSR	AR	WARREN	20	L	02-Jul-03	586824340	NOKL	733729	FLATCB73	255900
92	WSR	AR	WARREN	20	L	09-May-03	576439245	CHTT	273296	FLATCB73	255700
93	WSR	AR	WARREN	20	L	10-Dec-03	616014481	NOKL	733312	FLATCB73	255700
94	WSR	AR	WARREN	20	L	23-Oct-03	609479236	TTZX	863139	FLATCB73	255500
95	WSR	AR	WARREN	20	L	05-Nov-03	611080136	TTZX	864127	FLATCB73	255500
96	WSR	AR	WARREN	20	L	08-Jul-03	587756697	TTZX	862321	FLATCB73	255200
97	WSR	AR	WARREN	20	L	31-Dec-03	622076344	NOKL	733663	FLATCB73	255200
98	WSR	AR	WARREN	20	L	10-Feb-03	589543043	TTZX	862630	FLATCB73	255100
99	WSR	AR	WARREN	20	L	27-Feb-03	562856404	CRLE	20729	FLATCB73	254800
100	WSR	AR	WARREN	20	L	12-Dec-03	619161970	CRLE	20729	FLATCB73	254600
101	WSR	AR	WARREN	20	L	10-Feb-03	585543043	TTZX	862630	FLATCB73	254500
102	WSR	AR	WARREN	20	L	14-Jul-03	589033484	TR	274095	FLATCB73	254500

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2003 POTLATCH SHIPMENTS FROM WARREN, AB  
LUMBER LOADS WEIGHED ON UPRR SCALE

103	WSR	AR	WARREN	20	L	11-Aug-03	584267418	TR	273934	FLATCB73	254500
104	WSR	AR	WARREN	20	L	31-Dec-03	622076342	CHIT	273191	FLATCB73	254200
105	WSR	AR	WARREN	20	L	09-May-03	576439248	CRLE	20731	FLATCB73	254100
106	WSR	AR	WARREN	20	L	09-May-03	576439272	TTZX	862295	FLATCB73	254000
107	WSR	AR	WARREN	20	L	12-Jun-03	582921986	CRLE	20692	FLATCB73	254000
108	WSR	AR	WARREN	20	L	15-Oct-03	607045259	CHIT	273310	FLATCB73	254000
109	WSR	AR	WARREN	20	L	20-Nov-03	614828009	TTZX	84941	FLATCB73	254000
110	WSR	AR	WARREN	20	L	21-Feb-03	561545181	TTZX	863189	FLATCB73	253900
111	WSR	AR	WARREN	20	L	09-May-03	576439248	CRLE	20731	FLATCB73	253800
112	WSR	AR	WARREN	20	L	29-Dec-03	621863560	CHIT	273061	FLATCB73	253800
113	WSR	AR	WARREN	20	L	30-Jun-03	586371339	WPRR	73082	FLATCB73	253700
114	WSR	AR	WARREN	20	L	20-Nov-03	614928009	TTZX	84941	FLATCB73	253700
115	WSR	AR	WARREN	20	L	19-Sep-03	601925863	TTZX	856103	FLATCB73	253500
116	WSR	AR	WARREN	20	L	20-Aug-03	596089981	TTZX	856430	FLATCB73	253400
117	WSR	AR	WARREN	20	L	31-Dec-03	622076347	WPRR	73053	FLATCB73	253400
118	WSR	AR	WARREN	20	L	01-Dec-03	616121982	LW	75036	FLATCB73	253100
119	WSR	AR	WARREN	20	L	03-Nov-03	610816193	CRLE	20723	FLATCB73	253000
120	WSR	AR	WARREN	20	L	05-Feb-03	598654921	NOXL	730638	FLATCB73	252800
121	WSR	AR	WARREN	20	L	16-Jul-03	589285570	TR	165527	FLATCB73	252800
122	WSR	AR	WARREN	20	L	15-Jul-03	589285572	LW	74108	FLATCB73	252600
123	WSR	AR	WARREN	20	L	24-Jul-03	591035974	ATW	50130	FLATCB73	252600
124	WSR	AR	WARREN	20	L	19-Sep-03	601925863	TTZX	856103	FLATCB73	252200
125	WSR	AR	WARREN	20	L	07-Nov-03	611549002	TTZX	862095	FLATCB73	251600
126	WSR	AR	WARREN	20	L	07-Nov-03	611549002	TTZX	862095	FLATCB73	251400
127	WSR	AR	WARREN	20	L	12-May-03	576895894	TTZX	864401	FLATCB73	251300
128	WSR	AR	WARREN	20	L	09-May-03	576439022	ATW	50035	FLATCB73	251100
129	WSR	AR	WARREN	20	L	04-Nov-03	610823861	TTZX	856775	FLATCB73	251000
130	WSR	AR	WARREN	20	L	04-Nov-03	610823861	TTZX	856775	FLATCB73	250800
131	WSR	AR	WARREN	20	L	16-May-03	577857212	TTZX	863893	FLATCB73	250200
132	WSR	AR	WARREN	20	L	15-Oct-03	607045260	TTZX	85886	FLATCB73	249900
133	WSR	AR	WARREN	20	L	25-Jul-03	591035971	ATW	60071	FLATCB73	249500
134	WSR	AR	WARREN	20	L	06-Jun-03	58177464	CORP	9482	FLATCB73	246900
135	WSR	AR	WARREN	20	L	02-Jul-03	584414720	CRLE	20839	FLATCB73	243700
136	WSR	AR	WARREN	20	L	14-Nov-03	612867839	TTZX	861353	FLATCB73	246700

2003 POTLATCH SHIPMENTS FROM WARREN, AR  
LUMBER LOADS WEIGHED ON UPRR SCALE

Line No.	Shipper	Product	Quantity	Unit	Origin	Date	Weight	Company	Product	Weight
137	WSR	AR	WARREN	20	L	21-Jan-03	555406974	ITZX	FLATCB73	248600
138	WSR	AR	WARREN	20	L	25-Feb-03	562446039	ITZX	FLATCB73	248400
139	WSR	AR	WARREN	20	L	06-Jun-03	581771464	CORP	FLATCB73	248100
140	WSR	AR	WARREN	20	L	06-Mar-03	564222512	HLSC	FLATCB73	247900
141	WSR	AR	WARREN	20	L	22-Jan-03	555898671	ITZX	FLATCB73	247700
142	WSR	AR	WARREN	20	L	07-Jul-03	585661443	LW	FLATCB73	247600
143	WSR	AR	WARREN	20	L	17-Jan-03	554714510	SERA	FLATCB73	246800
144	WSR	AR	WARREN	20	L	15-Oct-03	607045260	ITZX	FLATCB73	246800
145	WSR	AR	WARREN	20	L	22-Aug-03	596566767	ITZX	FLATCB73	246600
146	WSR	AR	WARREN	20	L	09-Jan-03	553271111	NOKL	FLATCB73	246500
147	WSR	AR	WARREN	20	L	29-Aug-03	597956072	ITZX	FLATCB73	246000
148	WSR	AR	WARREN	20	L	07-Mar-03	564222494	CRLE	FLATCB73	245900
149	WSR	AR	WARREN	20	L	20-Aug-03	596086960	ITZX	FLATCB73	245800
150	WSR	AR	WARREN	20	L	10-Jan-03	563271227	HLSC	FLATCB73	245600
151	WSR	AR	WARREN	20	L	20-Aug-03	596086980	ITZX	FLATCB73	245400
152	WSR	AR	WARREN	20	L	30-Sep-03	604488660	NOKL	FLATCB73	245300
153	WSR	AR	WARREN	20	L	30-Sep-03	604489660	NOKL	FLATCB73	244900
154	WSR	AR	WARREN	20	L	17-Oct-03	607471853	ITZX	FLATCB73	244600
155	WSR	AR	WARREN	20	L	17-Oct-03	607471853	ITZX	FLATCB73	244300
156	WSR	AR	WARREN	20	L	19-Sep-03	601925867	ITZX	FLATCB73	244200
157	WSR	AR	WARREN	20	L	12-Dec-03	619161967	ITZX	FLATCB73	244100
158	WSR	AR	WARREN	20	L	25-Jul-03	591035972	ITZX	FLATCB73	243900
159	WSR	AR	WARREN	20	L	12-Dec-03	619161967	ITZX	FLATCB73	243800
160	WSR	AR	WARREN	20	L	06-Oct-03	605228606	HLSC	FLATCB73	243500
161	WSR	AR	WARREN	20	L	29-Oct-03	609936671	ITZX	FLATCB73	243200
162	WSR	AR	WARREN	20	L	02-Oct-03	604996235	ITZX	FLATCB73	243100
163	WSR	AR	WARREN	20	L	30-Jun-03	586371344	ITZX	FLATCB73	243000
164	WSR	AR	WARREN	20	L	29-Oct-03	606996671	ITZX	FLATCB73	243000
165	WSR	AR	WARREN	20	L	13-Aug-03	594742486	ITZX	FLATCB73	242500
166	WSR	AR	WARREN	20	L	23-Sep-03	602836940	ITZX	FLATCB73	241900
167	WSR	AR	WARREN	20	L	02-Dec-03	616121967	ITZX	FLATCB73	241600
168	WSR	AR	WARREN	20	L	11-Dec-03	620309420	ITZX	FLATCB73	241600
169	WSR	AR	WARREN	20	L	10-Nov-03	611957217	ITZX	FLATCB73	241400
170	WSR	AR	WARREN	20	L	18-Oct-03	607473736	NOKL	FLATCB73	241300

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2603 POTLATCH SHIPMENTS FROM WARREN, AR  
LUMBER LOADS WEIGHED ON UPRR SCALE

SHIPMENT NO	SHIPMENT DATE	SHIPMENT TIME	SHIPMENT WEIGHT	SHIPMENT TYPE	SHIPMENT CODE	SHIPMENT DESCRIPTION	SHIPMENT WEIGHT	SHIPMENT TYPE	SHIPMENT CODE	SHIPMENT DESCRIPTION	SHIPMENT WEIGHT
171	WSR	AR	WARREN	20	L	10-Jan-03	553271228	CRLE	20410	FLATCB73	241000
172	WSR	AR	WARREN	20	L	02-Dec-03	616121981	TTZX	861003	FLATCB73	240100
173	WSR	AR	WARREN	20	L	10-Nov-03	612058263	TBOX	665997	BOXPL060	239300
174	WSR	AR	WARREN	20	L	04-Nov-03	610823858	TTZX	864788	FLATCB73	239000
175	WSR	AR	WARREN	20	L	30-Jun-03	596371342	TR	274041	FLATCB73	237900
176	WSR	AR	WARREN	20	L	23-Dec-03	619492807	TTZX	863447	FLATCB73	65800
177	WSR	AR	WARREN	20	L	29-Dec-03	616266620	NOKL	733486	FLATCB73	62900
178	WSR	AR	WARREN	20	L	17-Oct-03	607471853	TTZX	84948	FLATCB73	62800
179	WSR	AR	WARREN	20	L	17-Oct-03	607471853	TTZX	84948	FLATCB73	62700
180	WSR	AR	WARREN	20	L	25-Nov-03	613065707	TTZX	862204	FLATCB73	62700
181	WSR	AR	WARREN	20	L	29-Dec-03	619285520	NOKL	733486	FLATCB73	62600
182	WSR	AR	WARREN	20	L	29-Sep-03	602214089	TTZX	856137	FLATCB73	62300
183	WSR	AR	WARREN	20	L	29-Dec-03	616266620	NOKL	733486	FLATCB73	62300
184	WSR	AR	WARREN	20	L	29-Sep-03	602104789	HLSC	3079	FLATCB73	62200
185	WSR	AR	WARREN	20	L	23-Dec-03	619492807	TTZX	863447	FLATCB73	61900
186	WSR	AR	WARREN	20	L	23-Dec-03	619492807	TTZX	863447	FLATCB73	61500
187	WSR	AR	WARREN	20	L	23-Dec-03	618494069	SERA	73005	FLATCB73	61200

THIS LIST EXCLUDES LOADS NOT WEIGHED BY UPRR

ESTIMATED WEIGHTS FOR LOADS IN WARREN, AR SHIPPED BY UPRR SCALE

FEB-23-2004 MON 03:20 PM DELTA SOUTHERN RAILROAD FAX NO. 13185744029

P. 09

HL005

DGNO

302 - UNION PACIFIC RAILROAD COMPANY - 802

R/T 01/30 12:30

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52488 WARREN AR  
6465 ST LOUIS MO 63103  
13TH & OLIVE, ROOM 400 DESK 7

POTLATCH WSR  
P.O. BOX 390  
WARREN

AR 71671

ZZ

[REDACTED]

Z1-10-000

DO NOT WEIGH-WEIGHT AGREEMENT

WEIGHT AGREEMENT  
LOADED FULL VISIBLE/SHELL CAP

2421131

TO BE PREPAID

WEIGHT AND CHARGES TO FOLLOW

1 CARLOAD 198,900  
YELLOW PINE LUMBER DRESS  
92,160 BD FT @ 2# PER BF  
PREPAID SHIPMENT TO  
[REDACTED]  
2002 ORDER  
#5 27103  
SOUTHERN PLANK  
73" ORDERED 73" FURNISHED  
VSN=5.Y2K PTRN=CONTRACT  
ID=WSR

SEND FREIGHT BILL TO:  
POTLATCH WSR  
P O BOX 390  
WARREN

AR 71671

FEB-23-2004 MON 03:20 PM DELTA SOUTHERN RAILROAD

FAX NO. 13185744029

P. 10

ZA003

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802 - UNION PACIFIC RAILROAD COMPANY - 802

R/T 07/03 10:03

802 - UNION PACIFIC RAILROAD COMPANY - 802

[REDACTED]

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03-78 02/06/

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52488 WARREN AR  
6465 ST LOUIS MO 63103  
13TH & OLIVE, ROOM 400 DESK 7

POTLATCH WSR  
P.O. BOX 390  
WARREN

AR 71671

ZZ

[REDACTED]

DO NOT WEIGH-WEIGHT AGREEMENT

WEIGHT AGREEMENT  
LOADED FULL VISIBLE/SHELL CAP

L CARLOAD

2421131

TO BE PREPAID

YELLOW PINE LUMBER  
DRESS 92,416. BD FT @ 2#  
PLR M  
PREPAID SHIPMENT TO  
[REDACTED]  
PER 7002 IMRL TO  
COLLECT BEYOND  
CHICAGO, ILL. PER  
[REDACTED]

201,800 \* \* \* \* \*  
\* DEREGULATED ACCOUNTING RULE 11 \*  
\* SHIPMENT - NO REVENUE WAYBILL \*  
\* WILL BE FURNISHED \*  
\* \* \* \* \*

POTLATCH CORP.  
ORDER #S-744  
SOUTHERN PLANER  
73" ORDERED 73" FURNISHED  
VSN=5.Y2K PTRN=CONTRACT  
ID=WSR

03 20 2004 11:01:20 PM DELTA SOUTHERN RAILROAD

FAX NO. 13185744029

P. 11

ZAC03

CPRS

802 - UNION PACIFIC RAILROAD COMPANY - 802

802 - UNION PACIFIC RAILROAD COMPANY - 802

R/T 02/27 11:37

[REDACTED]

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[REDACTED]

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52488 WARREN AR  
6465 ST LOUIS MO 63103  
13TH & OLIVE, ROOM 400 DESK 7

POTLATCH WSR  
P.O. BOX 390  
WARREN

AR 71671

ZZ

[REDACTED]

DO NOT WEIGH-WEIGHT AGREEMENT

WEIGHT AGREEMENT  
LOADED FULL VISIBLE/SHELL CAP

2421131  
1 CARLOAD  
YELLOW PINE LUMBER DRESS  
92,331 BD FT @ 2# PER BF  
PREPAID SHIPMENT TO  
PER [REDACTED] CPRS  
4400  
ORDER #S-2453 SOUTHERN  
PLANNER  
VSN:5.Y2K PTRN=CONTRACT  
ID=WSR

201,800 \* \* \* \* \*  
\* Deregulated Accounting Rule 11 \*  
\* SHIPMENT - NO REVENUE WAYBILL \*  
\* WILL BE FURNISHED \*  
\* \* \* \* \*

TO BE PREPAID

SEND FREIGHT BILL TO:  
POTLATCH WSR  
P O BOX 390  
WARREN

AR 71671

XG093

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802 - UNION PACIFIC RAILROAD COMPANY - 802

R/T 02/06 13:02

802 - UNION PACIFIC RAILROAD COMPANY - 802

[REDACTED]

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[REDACTED]

52488 WARREN AR  
6465 ST LOUIS MO 63103  
13TH & OLIVE, ROOM 400 DESK 7

[REDACTED]

FOR

POTLATCH WSR  
A/O STRINGFELLOW LUMBER

SQ ZZ 1POT-POT-CYP

[REDACTED]

DO NOT WEIGH-WEIGHT AGREEMENT

WEIGHT AGREEMENT

2491310

C/L LUMBER ROUGH OR DRESSED E 200,800

[REDACTED]

\*\*\*\*\*  
\* DEREGULATED ACCOUNTING RULE 11 \*  
\* SHIPMENT - NO REVENUE WAYBILL \*  
\* WILL BE FURNISHED \*  
\*\*\*\*\*

SEND FREIGHT BILL TO:

[REDACTED]

SUITE 200  
48320

ASSIGNED CAR CSD NO. 145. WHEN EMPTY, BILL BACK TO AGENT AT ?  
? IN REVERSE OF THE LOADED MOVEMENT.

CUSTOMER FURNISHED CONTRACT DATA - UP 073886 012

FEB-23-2004 MON 03:21 PM DELTA SOUTHERN RAILROAD FAX NO. 13185744029

HB005

302 - UNION PACIFIC RAILROAD COMPANY - 802  
00-000-00

802 - UNION PACIFIC RAILROAD COMPANY - 802

P. 13

R/T 04/24 14:17

[REDACTED]

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03-264 05/01

05 01 03

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PAGE 1

[REDACTED]

52488 WARREN AR  
6465 ST LOUIS MO 63103  
13TH & OLIVE, ROOM 400 DESK 7

[REDACTED]

S

POTLATCH WSR  
P.O. BOX 390  
WARREN

AR 71671

[REDACTED]

ZZ

DO NOT WEIGH-WEIGHT AGREEMENT

WEIGHT AGREEMENT  
LOADED FULL VISIBLE/SHELL CAP

2421131

TO BE PREPAID

WEIGHT AND CHARGES TO FOLLOW

1 CARLOAD 202,800  
YELLOW PINE LUMBER DRESS  
92,160 BD FT @ 2# PER BF  
PREPAID SHIPMENT TO

[REDACTED]  
2002 ORDER  
#S-5396  
SOUTHERN PLANNER  
VSN-5.Y2K PYNN=CONTRACT

SEND FREIGHT BILL TO:  
POTLATCH WSR  
P O BOX 390  
WARREN

AR 71671

[REDACTED]

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03-416 06/30 06 30 03 INFO COPY  
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PAGE 1

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52488 WARREN AR  
6465 ST LOUIS MO 63103  
13TH & OLIVE, ROOM 400 DESK 7

[REDACTED]

R

POTLATCH WSR  
P.O. BOX 390  
WARREN AR 71671

ZZ

[REDACTED]

DO NOT WEIGH-WEIGHT AGREEMENT

WEIGHT AGREEMENT  
LOADED FULL VISIBLE/SHELL CAP

TO BE PREPAID

2421131  
1 CARLOAD 204,100 \* \* \* \* \*  
YELLOW PINE LUMBER \* DEREGULATED ACCOUNTING RULE 11 \*  
DRESS 93,409. BD FT @ 2# \* SHIPMENT - NO REVENUE WAYBILL \*  
PFR BF \* WILL BE FURNISHED \*  
PREPAID SHIPMENT TO \* \* \* \* \*

[REDACTED]

PER

FROM THINE WOOD  
TREATERSORDER #S-7814  
SOUTHERN PLANER  
73' ORDERED 73' FURNISHED  
VSN=5.Y2K PTRN=CONTRACT  
ID=WSR

FEB-23-2004 MON 03:21 PM DELTA SOUTHERN RAILROAD FAX NO. 13185744029

P. 15

302 - UNION PACIFIC RAILROAD COMPANY - 802 R/T 06/30 13:12  
EC329 00-000-00 802 - UNION PACIFIC RAILROAD COMPANY - 802

[REDACTED]

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03-428 07/03

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52488 WARREN AR  
6465 ST LOUIS MO 63103  
13TH & OLIVE, ROOM 400 DESK 7

[REDACTED]

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POTLATCH WSR  
P.O. BOX 390  
WARREN

AR 71671

ZZ

[REDACTED]

DO NOT WEIGH-WEIGHT AGREEMENT

WEIGHT AGREEMENT  
LOADED FULL VISIBLE/SHELL CAP

2421131

TO BE PREPAID

WEIGHT AND CHARGES TO FOLLOW

1 CARLOAD 209,800  
YELLOW PINE LUMBER DRESS  
96,000 RD FT @ 2# PER BF  
PREPAID SHIPMENT TO EAU  
[REDACTED]  
PER 2002 ORDER  
HS-B447  
SOUTHERN PLANER  
VSN#S.Y2K PIRN#CONTRACT  
ID#WSR

SEND FREIGHT BILL TO:  
POTLATCH WSR  
P O BOX 390  
WARREN

AR 71671

FEB-23-2004 MON 03:22 PM DELTA SOUTHERN RAILROAD

FAX NO. 13185744029

P. 16

MX001

TRRA

802 - UNION PACIFIC RAILROAD COMPANY - 802

R/T 08/14 09:36

802 - UNION PACIFIC RAILROAD COMPANY - 802

[REDACTED]

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03-524 08/14

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PAGE 1

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52488 WARREN

AR

6465 ST LOUIS

MO 63103

13TH & OLIVE, ROOM 400 DESK 7

S

POTLATCH WSR

P.O. BOX 390

WARREN

AR 71671

ZZ

[REDACTED]

DO NOT WEIGH-WEIGHT AGREEMENT

WEIGHT AGREEMENT  
LOADED FULL VISIBLE/SHELL CAP

2421131

TO BE PREPAID

WEIGHT AND CHARGES TO FOLLOW

1 C/L YELLOW PINE LUMBER DRESS 209,800  
96,000. BD FTQ2# PER BF  
PREPAID SHIPMENT TO

[REDACTED]

08/24/2002 ORDER

IFS-9927

SOUTHERN PLANER

73' ORDERED 73' FURNISHED

VSN=5.Y2K PTRN=CONTRACT

ID=WSR

SEND FREIGHT BILL TO:

POTLATCH WSR

P O BOX 390

WARREN

AR 71671



2/27/2004



Statement of Linda Wainright:

DSR received the insurance claim check on 1-16-04, late in the afternoon, concerning the loss of lading to Potlatch of \$62,122.21, not \$66,036.09 as stated in correspondence of 12-29-03. The check also contained \$51,440.30 for Bradley Lumber Company.

We immediately processed the checks for payment and sent to both companies by Federal Express on Monday 1-19-04.

Chuck Pearson@up.com, 11:24 AM 12/28/03, Revenue from lost lading

To: Chuck\_Pearson@up.com  
From: Bubba York <Bubba.York@potlatchcorp.com>  
Subject: Revenue from lost lading  
Cc:  
Bcc:  
Attached:

Chuck,

Sorry to write again, but I forgot to mention that the Delta Southern continues to owe Potlatch \$66,836.88 for lost lading on shipments dated 2/28/03. *\$62,122.21*

In addition, they owe Potlatch \$11,594 for lost lading on shipments dated 11/14/03. *INSURANCE CLAIM STILL PENDING.*

Thank you,  
Bubba

Printed for Bubba York <Bubba.York@potlatchcorp.com>

Hatch, Susu" , "Warner, Rick" <Rick.Warner@potlatchcorp.com>, 09:45 AM 12/29/03

To: "Hatch, Susu" <Susu.Hatch@potlatchcorp.com>, "Warner, Rick" <Rick.Warner@potlatchcorp.com>  
From: Bubba York <Bubba.York@potlatchcorp.com>  
Subject: Fwd: delta southern  
Cc:  
Dec:  
Attached:

Date: Tue, 23 Dec 2003 13:50:41 -0600  
From: Kenneth McDougald <bradleylumber@direcway.com>  
Subject: delta southern  
X-Sender: bradleylumber@pop3.direcway.com  
To: Chuck Pearson@up.com  
Cc: "York, Bubba" <Bubba.York@potlatchcorp.com>  
X-Mailer: QUALCOMM Windows Eudora Version 5.1  
X-MailScanner-Information-PCCLK: Potlatch Corporation mailscanner  
X-MailScanner-PCCLK: Potlatch scanner marked this clean

Mr. Pearson,

I got your name and email from Bubba York. He has conveyed to me the situation with chip cars. I want to let you know that we, at Bradley, have had our fill of this and similar situations involving the Delta Southern RR. Their credibility is non-existent. We have an outstanding claim with them from February for over \$50m and have received nothing but unkept promises. I have claims out for 4 chip cars in addition to that.

Bottom line, the current problem of having no chip cars is causing a severe hardship on our ability to operate. I know it is not your problem, but any amount of influence or pressure you can apply to this situation would be greatly appreciated by both us and Potlatch. We are making plans to be able to ship all our chips and lumber by truck due to the inability of local rail service to meet minimum requirements for service to us. I do not know the timeframe, but it will be sometime in the first quarter if all goes as planned. I have been unable to get any help from UP short-line customer service to do anything about our substantial losses due to the Delta Southern. We are a small company and every dollar spent must have a reason and a return.

Thanks for reading this.

K. McDougald  
General Manager  
Bradley Lumber Company  
Warren, Arkansas

Printed for Bubba York <Bubba.York@potlatchcorp.com>

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**DELTA SOUTHERN RAILROAD, INC.**

**029611**

INVOICE NO.	INVOICE DATE	REFERENCE	BALANCE DUE	GROSS PAYMENT	DISCOUNT TAKEN	NET PAYMENT
228001/19/04	01/19/04	CRLE	20726	34,028.73	0.00	34,028.73
228001/19/04	01/19/04	TTZX	863130	28,093.48	0.00	28,093.48

**NON-NEGOTIABLE**

CHECK NO.	SFC. NO.	VENDOR NO.	TOTALS		
000000029611		3190	62,122.21	0.00	62,122.21

<p><b>DELTA SOUTHERN RAILROAD, INC.</b>                  MADISON PARISH PORT                  P.O. BOX 1708                  TALLULAH, LOUISIANA 71284-1708                  (318) 574-5420</p>		<p>WIBERNA NATIONAL BANK                  TALLULAH, LOUISIANA 71282                  84-4879/1111</p>	<p>CHECK  <b>029611</b>                  CHECK DATE                  01/19/04                  CHECK AMOUNT                  \$62,122.21</p>
<p>***** Sixty-Two Thousand One Hundred Twenty-Two and 21/100 *****</p>			
<p>PAY TO THE ORDER OF                  POTLATCH                  P.O. BOX 390                  WARREN, AR</p>	<p>71671</p>	<p><b>NON-NEGOTIABLE</b></p>	

#029611# 01111048790560 12=5496 6\*

FEB-25-2004 WED 10:48 AM DELTA SOUTHERN RAILROAD  
**DELTA SOUTHERN RAILROAD, INC.**

FAX NO. 13185744029

P. 15  
**029585**

INVOICE NO.	INVOICE DATE	REFERENCE	BALANCE DUE	GROSS PAYMENT	DISCOUNT TAKEN	NET PAYMENT
	3101/19/04	MP592870		2,816.00	0.00	2,816.00
	3301/19/04	MP377319		48,624.30	0.00	48,624.30

**NON-NEGOTIABLE**

CHECK NO.	SEC. NO.	VENDOR NO.	TOTALS
000000029585		1330	51,440.30      0.00      51,440.30

<b>DELTA SOUTHERN RAILROAD, INC.</b> MADISON PARISH PORT P.O. BOX 1709 TALLULAH, LOUISIANA 71284-1709 (318) 574-5420		HEBERTIA NATIONAL BANK TALLULAH, LOUISIANA 71282 84-45791111	CHECK <b>029585</b> CHECK DATE      CHECK NO. 01/19/04 CHECK AMOUNT \$51,440.30
***** Fifty-One Thousand Four Hundred Forty and 30/100 *****			
PAY TO THE ORDER OF BRADLEY LUMBER COMPANY P.O. BOX 930 WARREN, AR 71671	<b>NON-NEGOTIABLE</b>		

⑈029585⑈ ⑆111106879⑆560 12⑈5496 6⑈



February 12, 2004

Mr. William P. Wainwright  
President  
Delta Southern Railroad Company  
Madison Parish Port  
Tallulah, Louisiana 71282

Dear Mr. Wainwright:

Please refer to our telephone conversation of this morning, February 2, 2004, between yourself and your counsel, Mr. John Heffner, and Warren Wilson and myself in which you reported on your telephone conversation with representatives of Potlatch Corporation.

In our call you requested "several months" in order to correct the defaults that were the subject of my letter to you dated February 3, 2004. You also indicated that you felt your conversation with Potlatch Corporation representatives had been successful in that, although they had not agreed to your requests for additional time to correct Delta Southern's problems, they had also not "said no". Both Mr. Wilson and I indicated that we could not give you an answer on the issue until we had talked to Potlatch Corporation and understood whether their concerns had been addressed.

Following the call, Mr. Wilson and I contacted the representatives of Potlatch Corporation with whom you spoke to review their impressions of their conversation with you. They indicated that they felt none of the four basic issues that concerned them were adequately addressed in their conversation with you. These issues include:

- First, and most important, Delta Southern's consistent failure to provide reliable rail transportation to their facilities and to move their product in a timely and safe manner;
- Second, Delta Southern's failure to maintain insurance for derailments and property damage;
- Third, Delta Southern's refusal to move properly loaded center-beam flatcars of lumber; and,
- Fourth, Delta Southern's refusal to move properly loaded wood-ship cars.

They indicated that until these conditions were corrected they would be forced to continue trucking of their products. Potlatch Corporation's representatives further indicated to us that their current arrangements to truck their products to destination are for three weeks. If they are not able to ship by rail at the end of the three-week period, they will need to make long-term arrangements to ship all of their products by truck and there will be no further need for rail service.

John T. Gray  
Executive Director, Interline Marketing

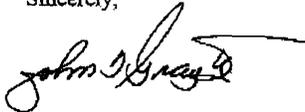
UNION PACIFIC RAILROAD  
1416 Dodge Street, Omaha, NE 68179  
ph: (402) 271-3450 fx: (402) 271-2438  
jgray@up.com

Mr. William P. Wainwright  
Page Two  
February 12, 2004

Since Potlatch Corporation's fundamental issues have not been addressed and there has been no indication that you have either the resources or ability to cure, in a timely manner, the issues of default noted by my February 3, 2004 letter, I must make it clear that the original deadline remains in place. I would once again urge you to immediately surrender the property leased from Union Pacific in order to mitigate the damages that will be caused by your continued retention of the leased property.

Please contact, or ask Mr. Heffner to contact, either myself or Mr. Wilson prior to 4:00 p.m. CST, February 13, 2004 with your decision so that we can make appropriate preparations.

Sincerely,



Donna Harris

---

From: "Rick Warner" <Rick.Warner@potlatchcorp.com>  
To: "Donna Harris" <dharris@colla.com>  
Sent: Wednesday, October 15, 2003 7:22 AM  
Subject: Re: Chip Hoppers

Good job Donna, stay on top of them!

At 04:59 PM 10/14/03, you wrote:

>Sue,

>

>I ran empties yesterday and I did not have enough to give WSR any chip

>hoppers. This is due to the fact that Cypress Bend is not unloading

>enough cars. I have 5 hoppers in Mcgehee and I will receive 8 tonight. I

>won't have enough for WSR again. Do you know what the problem is? I just

>wanted someone to know the situation.

>

>Thanks,

>Donna Harris

2/23/2004