

SAN ANGELO RAIL FREIGHT FACILITY

Rail Port
San Angelo

South Plains & Lamesa Railroad



Multi-Commodity
Regional Rail Port
Overview



SAN ANGELO RAIL PARK

Statement of Operational Intent by South Plains & Lamesa Railroad, LTD.

This summary is designed to inform the potential end-users and customers of the plan of operation for the rail facility at San Angelo, Texas. The San Angelo Rail Park is a 180-acre multi-track freight rail port which will feature multiple lanes for a variety of freight types located on the north side of San Angelo.

The San Angelo Rail Park will be a multi-commodity transportation interchange serving regional bulk commodity shippers and connecting them into the domestic and international freight transportation system for both national and international market access.

The Park will be platted to allow for the sale of rail-served individual industrial sites.

The San Angelo rail port will be the centerpiece for future industrial development in San Angelo and Tom Green County, and it will directly impact freight cost reduction and supply chain control for high volume industries. The San Angelo Rail Park will serve the industrial and agricultural enterprises of the regional economy thus improving the economic prosperity of San Angelo and the immediate region.

A multi-commodity rail port serving the San Angelo business community will be a significant enhancement to the regional commodity producers, commodity consumers, energy industries, manufacturing operations and other industrial sectors.

The concept of a multi-commodity rail port project has also been studied by our colleagues at the San Angelo-based Texas Pacifico Transportation, Ltd. (TXPF), a Class 3 Short Line operator which leases the South Orient Rail Line from the State of Texas Department of Transportation (TxDOT). TXPF executive leadership has provided invaluable information regarding current freight traffic volumes, cargo types, rail line infrastructure investment programs and how freight traffic volumes and transit frequencies will be affected by the opening of the Presidio-Ojinaga International Rail Bridge estimated to begin operations in April of 2021.

TXPF is currently investing approximately \$100 million phased over time into the rehabilitation of the South Orient Rail Line as part of an on-going multi-national program. See attached informational progress update letter from Texas Pacifico Grupo Mexico addressed to the San Angelo Chamber of Commerce dated August 25, 2020, on page 2.

Texas Pacifico Transportation, Ltd. continues to be an essential partner in the development and success of the South Orient Rail Line. The following letter serves as a statement of their commitment to the overall success of the rail line revitalization project.



SAN ANGELO RAIL PARK



August 25, 2020

Mr. Walt Koenig
President/CEO
San Angelo Chamber of Commerce
113 W. Beauregard St.
San Angelo, TX 76903

Dear Mr. Koenig:

It is our pleasure to inform you that Texas Pacifico (TXPF) has just taken another significant step in the long-awaited reopening of the rail freight corridor over the South Orient Railroad (SORR) connecting freight movements between Texas and Mexico.

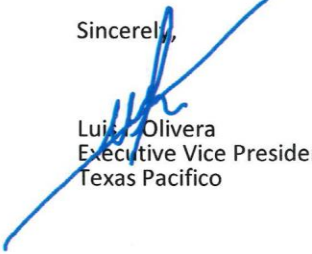
Effective Friday, August 14, TXPF awarded a \$14M contract to start rail improvement work immediately as part of a phased, multi-year capex program to further enhance the SORR. At the same time, our parent company Grupo México Transportes, through Ferrromex, has also embarked on a project of similar size and scope (~\$15M) on the Mexican side of the border going towards Chihuahua. These joint projects will be complete by the end of the first quarter of 2021. And with great anticipation, we are eager to start rail traffic over the bridge and this corridor in April.

As owner of the SORR, the State of Texas will be the beneficiary of these private capital investments by its long-term tenant. But beyond that, any shippers taking advantage of the USMCA will also stand to benefit from this corridor being reestablished, which effectively connects the Port of Topolobampo, Sinaloa on the Pacific coast of Mexico with Chihuahua and different points along the SORR, including the Permian Basin, all the way to the DFW Metroplex and beyond.

We are diligently working hand in hand with TxDot and the US Customs and Border Protection (CBP) to ensure there is a suitable temporary operations plan that will facilitate the movement of rail traffic over the bridge in Presidio upon completion of these rail improvement projects. While the full build out of the required CBP facilities at the bridge are a couple of years away, given the capital that has been put into rebuilding the international bridge and improving the rail line over recent years, it is imperative that rail traffic can begin to flow as soon as it is physically possible to move rail cars over the bridge.

We are excited to have the opportunity to play a key role in helping rebuild the Texas, US and Mexican economies as an international freight provider.

Sincerely,



Luis J. Olivera
Executive Vice President
Texas Pacifico



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Qualifications

The South Plains & Lamesa Railroad (SPLRR) was selected by San Angelo as a uniquely qualified rail port developer that will maintain and operate this multi-commodity bulk rail freight facility.

- Established in 1993, SPLRR has developed and successfully operates their fully-owned rail port in Slaton, Texas. The Slaton facility has expanded from an original 5 miles to now over 23 miles of track. Commodities handled include: agricultural products, aggregate, recyclables, sand, chemicals, livestock feed products, crude oil, scrap steel, wind tower components and custom heavy loads such as large transformers, industrial generators and turbines.
- Other services provided by SPLRR at Slaton include rail car storage, rail car repair, and custom switching services.
- SPLRR also operates a rail port facility at Pueblo, Colorado with 28 miles of track, providing industrial switching, rail car storage, rail car repairs and other switching services. Handled products include wind tower components, steel and bulk propane.
- SPLRR is the operator of the two rail port facilities that serve the San Angelo-Concho Valley agricultural and industrial sectors.



South Plains & Lamesa Railroad – Rail port facility at Slaton, Texas



Turbine components interchange for transload to trucks at Slaton, Texas facility



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South Orient Rail Line & Texas Pacifico Transportation, Ltd. Background

The South Orient Rail Line is a State of Texas-owned property that runs from Presidio, Texas on the Mexican border, to “San Angelo Junction” near Coleman, Texas, which is the interchange point between the TXPF (Class 3) and BNSF (Class 1). The Presidio-Ojinaga International Rail Bridge has been rebuilt to the latest modern standards and is tentatively scheduled to be opened in April of 2021 to be utilized for international rail traffic between the United States and Mexico.

Texas Pacifico Transportation, Ltd. (TXPF) operates over the South Orient Rail Line under a lease and operating agreement with TxDOT and a short track segment of Union Pacific trackage rights. The TXPF operates over the Union Pacific from Alpine Junction to Paisano for a distance of 11.18 miles under the trackage rights agreement authorized by the Surface Transportation Board docket number FD36319 dated August 9, 2019.

Texas Pacifico Transportation, Ltd. is a subsidiary of Grupo Mexico which also owns the connecting rail lines in Mexico of Ferromex, Ferrosur and Intermodal Mexico. TXPF operates and maintains the South Orient Rail Line from San Angelo Junction to Presidio at the Mexican border. TxDOT completed the acquisition of the line in 2001 and leased it to TXPF. TXPF interchanges with two railroads at San Angelo Junction, which are the BNSF Railway and the Fort Worth and Western Railroad.



Presidio-Ojinaga International Rail Bridge in October 2019 – Scheduled for freight operation in April 2021
Credit: Brad Newton, Presidio Municipal Development District (PMDD)

SPLRR GOALS FOR THE SAN ANGELO RAIL PORTS

- Industrial growth and retention by lowering freight transportation and warehousing costs to the users.
- Creation of supply chain improvements by stabilizing material flow into the production process by increasing volumes at lower unit cost for shipping.
- Lowering cost and increasing shipping volumes for outbound products.



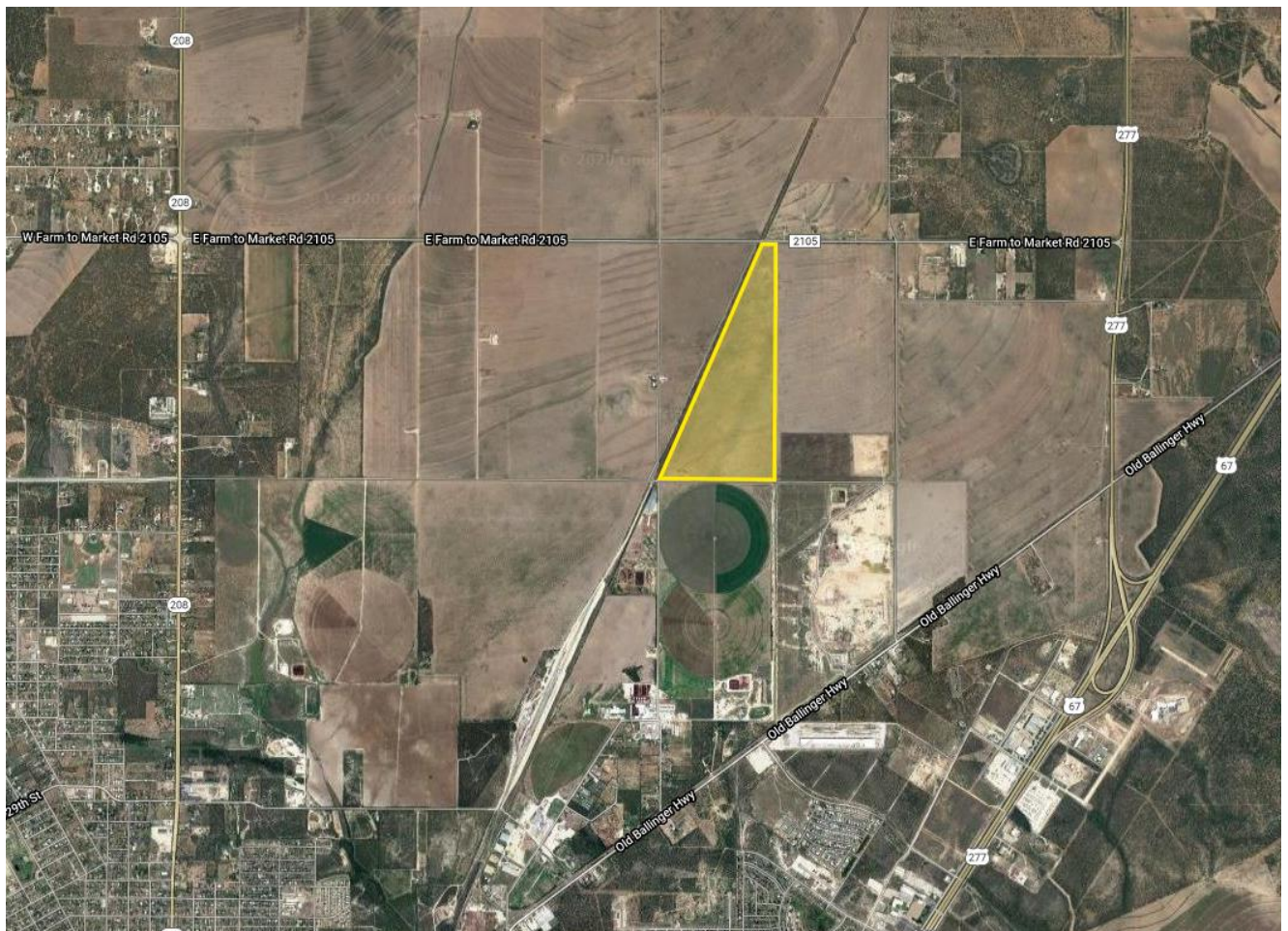
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- Centralizing multiple low-volume customer's rail movements into one designated location away from the general public for safety, security, and public convenience.
- Reduction of long-haul heavy truck traffic from public highways and streets.
- Creation of secondary related business opportunities.
- Instilling confidence in the local industrial business environment.
- Possible international port of entry at San Angelo by the establishment of a Foreign Trade Zone (FTZ) designation approved and administered by U.S. Customs and Border Protection.
- Will mitigate the challenges to re-introduction of rail service to the local industrial base.

Site Location

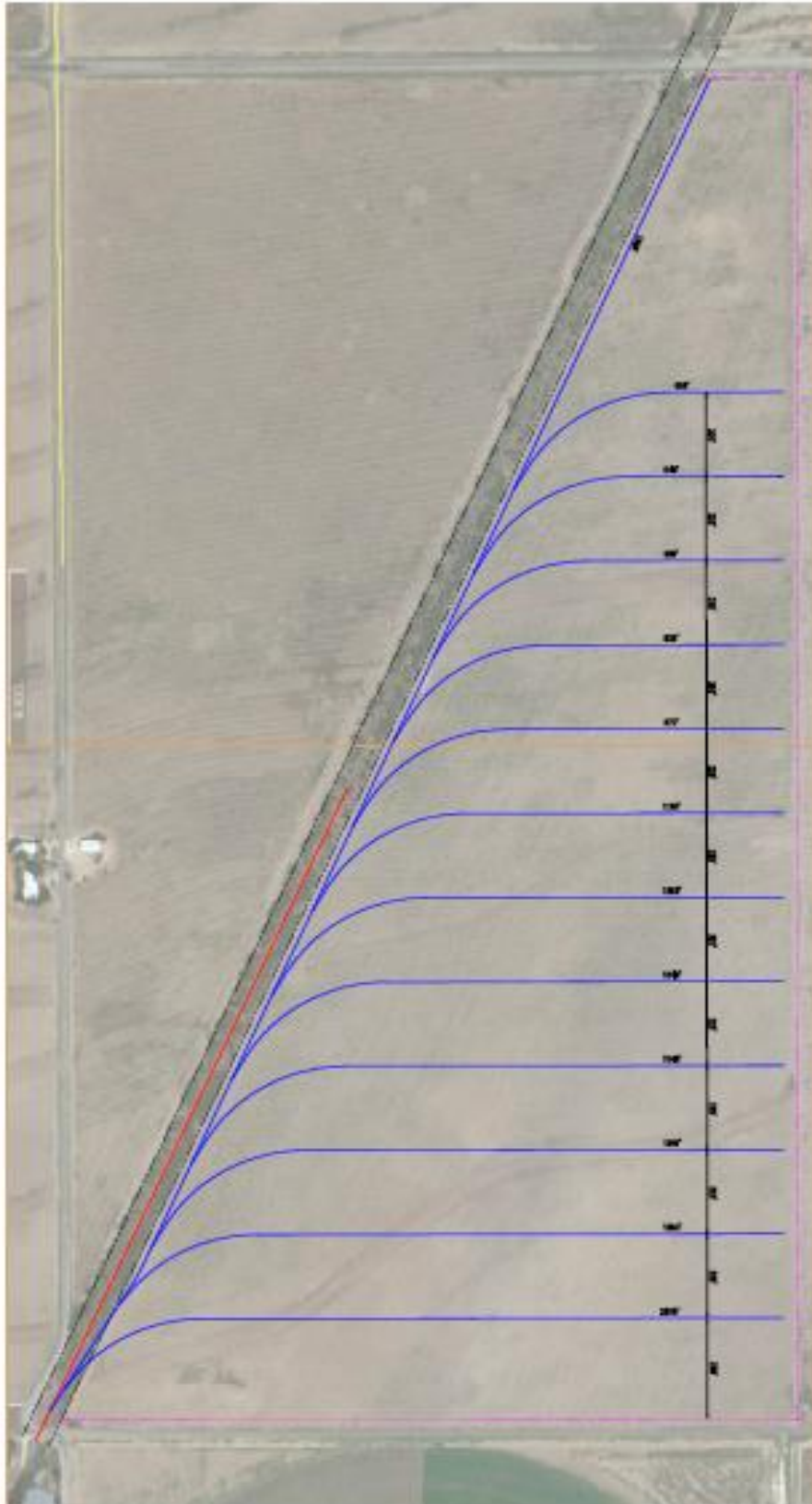
180 acres – Located at 2105 (main entrance) and 50th Street in north San Angelo, Texas.

The Park will be platted to allow for the sale of rail-served individual industrial sites.





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Product Handling

The San Angelo site is designed for the handling and storage of various types of commodities both in-bound and out-bound. Factoring in seasonal variances, such as dry feed products, agricultural and industrial chemicals, steel, aggregates, fibers, and grains. There is sufficient room on both sites for the addition of dry bulk and liquid bulk storage tanks as well as appropriate truck and tank car loading/unloading racks. South Plains Lamesa Railroad as operator will assure the rail port will incorporate a range of product handling capabilities in ensure flexibility and be adaptable to different cargoes and changing market demands.

Reintroduction of Local Rail Service to the Concho Valley

One of the many challenges to the reintroduction of rail freight service to the local businesses and industries has been the underutilization and under-marketing of the South Orient Rail Line for many decades to regional and local industry. This TXPF rail line rehabilitation along with the opening of the Presidio-Ojinaga International Rail Bridge, where the South Orient Rail Line borders the US and Mexico, has created new opportunities that local and regional industry is beginning to consider.

The South Orient Rail Line runs from the San Angelo Junction near Coleman, Texas to Presidio, Texas for a total distance of 391 miles on the US side. The line continues for an additional 585 miles (km 942) and terminates at the Port of Topolobampo, Mexico, with connections to the entire railroad system in Mexico. Until relatively recently the line and track were subject to neglect, including the destruction of the Presidio-Ojinaga International Rail Bridge in 2009. The neglect of this line naturally caused rail users to seek alternative forms of freight transportation. The line is currently being rehabilitated by TXPF on the United States side of the border in conjunction with TxDOT. Ferromex is currently rehabilitating the Mexican side of the same line. These positive changes have caused a renewed interest in the potential economic benefit to freight rail shippers both locally and in other parts of the United States and Mexico. TXPF representatives have reported that approval has been made by the board of directors of Grupo Mexico for the initiation of a total phased \$40 million on the Mexican side and \$60 million on the US side to be invested in the rail line.



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International Rail Freight Current Routes and Potential



Primary Rail Lines in Mexico with connections to US Rail Bridge Points of Entry (POE)

Development of the International Port of Entry at Presidio, Texas – Project Update 2020

PROJECTED DEVELOPMENT OF THE INTERNATIONAL PORT OF ENTRY AT PRESIDIO, TEXAS.
 Presidio Municipal Development District
 Presidio International Port Authority

NOVEMBER 2019





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November 15, 2019 inaugural meeting of the US-67/South Emerging Freight Corridor community stakeholders

The Presidio Municipal Development District (PMDD) published a 119-page report detailing the projected development of the international port of entry at Presidio, Texas. This report was publicly revealed at the November 15, 2019 inaugural meeting of the US-67/South Emerging Freight Corridor community stakeholders. The PMDD report contains import trends, export trends, and estimated future trade developments from 2019 to 2049. Other sections of the report include energy export types, projected volumes, and potential industrial development. The report also predicts agribusiness cross-border trade and industrial traffic estimates at the Border Point of Entry (BPOE). The Presidio-Ojinaga International Rail Bridge is designed serve high volumes of industrial and agricultural trade between the United States and Mexico with a strong focus on the State of Chihuahua, which is a major center of agricultural production in North America. There are only six (6) active rail BPOEs on the border between Mexico and the United States (see map below). The Presidio-Ojinaga rail bridge is scheduled to be placed in service in April 2021. This will increase the total BPOEs to seven (7).



The Presidio-Ojinaga BPOE will serve as a natural reliever route to the El Paso, Nogales and Laredo rail bridges that transit cargo from multiple points of origin in Mexico and the far east via the Port of Topolobampo. It will also service the industrial and agricultural sectors of the State of Chihuahua and the west Texas “Opportunity Zone” (map on page 9). This segment of the border is flanked by the BPOEs at El

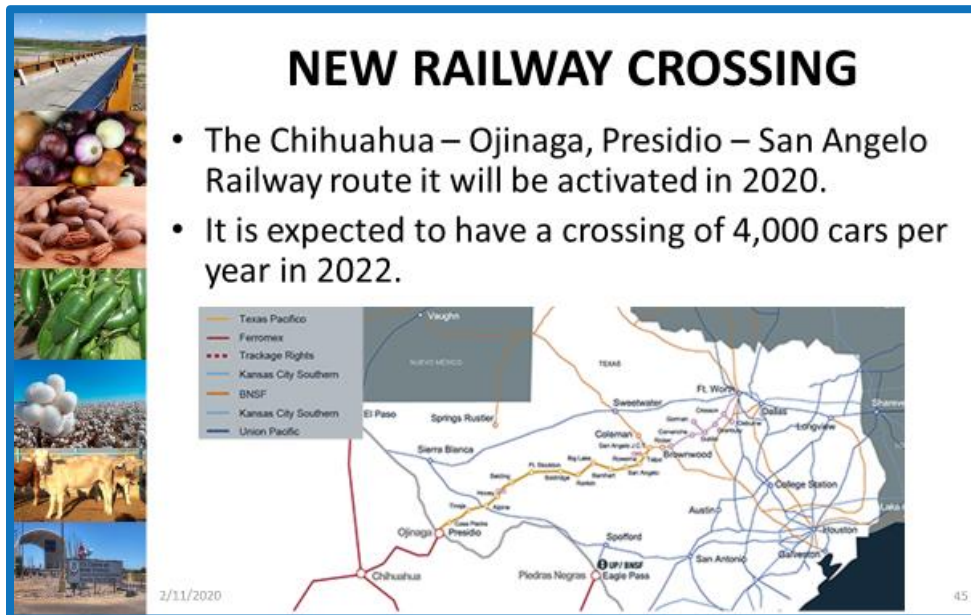
Paso to the west and Laredo to the east. This “Opportunity Zone” of northwest Mexico and southwest Texas has had to function without optimal trade efficiencies due to the lack of the rail bridge at Presidio. This has also caused rail freight both to-and-from central Mexico and the Port of Topolobampo to be routed via El Paso, Laredo, or Hidalgo, adding freight costs to the total origin-to-destination movement thus lowering its competitiveness as rail freight route. The opening of the Presidio rail bridge will reconnect central Mexico and the Port of Topolobampo to a more direct rail route through Presidio, Alpine, Fort Stockton, and San Angelo. At San Angelo Junction the TXPF interchanges with the BNSF and Fort Worth and Western to all US routes.

Freight rail volumes along the line were relatively low even before the bridge was removed from service due to long-term neglect of the rail line and resultant lack of commercial use. However, in the years between 2009 and 2020 the rail line is being rehabilitated to the capabilities of 40



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mph track speeds currently only north of Fort Stockton. Once the Presidio bridge opens the rail freight route will provide access to improved markets to-and-from Chihuahua as well as the Port of Topolobampo.



Product Types and Customized Services

All cargo generally requires additional services on site. All of these services generate revenue for the rail port operator and are a convenience for the shipper as well as the transportation



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services that call on the facility. These include but are not limited to value added services, such as, processing, blending and mixing, mandated cargo inspection, equipment supply and chassis pools, warehousing, consolidation, distribution, cargo protection, hazmat, freezing and temperature control, monitoring, humidity control, moisture protection and other trucking and rail support services. The methods for handling cargo may vary depending on the commodities handled but as mentioned the processes are essentially the same.

Positive Economics of Cargo Diversity

The most commercially feasible opportunity for the San Angelo rail ports is with a diversified commodities/cargo base which is transported and handled in *bulk and breakbulk* (cotton seed), *containerized* (containers of cotton bales) and *manufactured goods* (wind tower components) movements. The changing cycle of types of shipments warrants a broader mix that employs all of the key transportation systems available, that rely on rail port transloading capabilities. An example of this would be seasonal inbound bulk fertilizer shipments in the winter and harvested grain outbound shipments in the fall while utilizing the same type of track segment.

Function of the Rail Ports

The function of the San Angelo rail facilities is to provide locations for the transloading of current and potential shipped commodities that will be transloaded from truck-to-rail and from rail-to-truck. Various commodities require specialized infrastructure and equipment necessary for mixed-use facilities, and thus must be considered when planning potential rail port services. SPLRR will identify potential end-users with the intent to ship from the facilities.

Shipping Cost Factors

Shipping costs are a significant factor in the economics of commodity movements (aggregates) and manufactured finished products (interregional pipeline pipe). The two main advantages are: 1) Rail offers a reduction in freight rates of 30% to 70% and; 2) Provides better control of supply chain commodities/raw materials due to the ability of rail cars to carry four to five times higher volumes of the commodity being shipped or received per carload as opposed to truckload.



Source: Union Pacific



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Gross Weight Bridge Ratings

The South Orient Rail Line all bridges between Topolobampo, Mexico, and Coleman, Texas will meet a national railway standard of 286,000 pound gross weight ratings.

Potential Local Cargo and Commodity Types

Potential inbound and outbound opportunities that could utilize the San Angelo rail ports to be served by SPLRR with TXPF acting as the line haul carrier:

- Agricultural products
- Perishable products in refrigerated or “reefer” containers
- Cement/Roofing/Bricks
- Aggregates/Non-metallic minerals
- Petroleum based and packaged products such as chemicals and certain fuels
- Grain alcohols
- Hydrochloric acids
- Compressed gases shipped in ISO containers
- Forest products/Lumber/Panel
- Scrap metal destined for local processing into refabricated products
- Consumer products such as manufactured goods
- Project cargo such as fabricated components for larger assembled products (interregional pipelines, wellhead flowpipe, wind turbines)
- Organic and manufactured fertilizers



Interregional pipeline components in San Angelo



TTX 89' Flat Cars in Barnhart, Texas transiting pipe west



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Seal coat destined for San Angelo at Alpine, Texas



Rail-to-Truck transload at San Angelo

SPLRR Rail Port San Angelo Design Method

The key factors that determine how the commodities will move depends on the total price for the entire origin-to-destination move and time sensitivity related to the required transit of the cargo. Business development based on cargo handling begins with flexible infrastructure. If a rail port facility has rail-to-truck and truck-to-rail capabilities, the options for cargo moving in numerous modes are diversified and adaptable to changing market conditions. The first step in the development of this facility is site planning that reflects on-site access for all available transportation modes, coupled with warehousing and storage capacity including the ability to handle cargo in breakbulk (pallets, IBCs, barrels), domestic and international containers or in bulk. Site planning should include all of these elements with the development being phased-in as opportunities present themselves, including the action items listed below:

- Overall site improvements with improved road access
- A central gate and secondary access points including security fencing and flood lighting as required
- Utilities – water, sewer, electricity
- Storage capacity in the forms of dry silos, liquid bulk tanks and warehouses, including cold storage capacity
- Permanent rail-served processing and manufacturing facilities (on-site mixing facilities for feed or chemical hydrolyzing)
- Related loading and unloading racks, container tilters (grains) and loaders
- Truck and rail scales
- Conveyors and pipelines
- Appropriate ground handling equipment such as cranes, forklifts, pumps and conveyors

Development Actions Instituted by South Plains Lamesa Railroad

The rail port infrastructure development will be tied to realistic cargo opportunities. The initial development will be designed to handle multi-modal and intermodal transfer of containers, palletized goods and bulk commodities. Based on the analysis to be performed by South Plains



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Lamesa Railroad, local shipper interviews and regional commodity analysis, the following activities are recommended for consideration:

- Establish proper routing and commodity codes employed by railroad shippers and rail roads including the Standard Transportation Commodity Code (STCC Code). This is a special seven-digit numeric code representing 38 commodity groupings. Assignment of a STCC Code is associated by a commodity description developed to conform with exact descriptions in freight transportation classifications of rail and motor carriers
- Develop strategic goals and master planning objectives for the proposed port development
- Adjust municipal permitting and zoning of the site as required to support the facility
- Undertake the required federal and state permitting processes
- Develop a business development process including shipper, consignee, broker, and carrier database
- The South Plains & Lamesa Railroad will develop a rail port utilization tariff, port utilization regulations/track rules, and pricing schedule for shippers and receivers

Examples of the Economic Benefits to the Potential Users of the Rail Port

These calculations only work for a business that has the operating capacity to accommodate receiving or storing at least 4 to 5 semi truck loads of any product or material. An average of these two following examples may be used to reasonably calculate the overall economic benefit of the rail port facility back to the community by multiplying the average freight cost savings by the number of rail cars utilizing the facility per month or year.

EXAMPLE A: Intra-emerging freight corridor commodity move that is internal to TXPF from Alpine to Fort Stockton. This is single unit train aggregate move of 250 miles employing high-capacity open-top gondola railcars. Each railcar carries 116.5 net tons of material at a freight cost of \$1,750.00 per railcar. The railcar volume is equal to 5.27 loaded semi trucks at 22 tons per truck load. The cost of a single semi truck, at a rate of \$.25 per ton mile is \$1,375.00 per load. The trucking cost for the equivalent of one railcar is \$7,246.25. Rail cost for shipping an equal amount is \$1,750.00. Cost savings rail over truck for the bulk delivery is \$5,496.25. There will also be a transload cost on the receiving end of the route of \$2.00 per ton or \$233.00 per railcar. There is also a drayage cost for short haul trucking of the material that will vary but will not affect the freight cost savings significantly if its local delivery.

EXAMPLE B: A load of frac sand from the Ottawa, Illinois area, near Chicago. This move is a single-car costing being handled in unit train service, thru-freight routing move involving Iowa Interstate RR, BNSF, and Texas Pacifico. Each railcar carries net 100 tons of frac sand (a “dry flowable”) at a freight cost of \$6,850.00, this volume is equal to 4.54 loaded semi trucks at 22 net tons per load. The cost of a single semi truck, at a rate of \$3.00 per loaded mile for 900 miles is \$2,700.00. The trucking cost for the equivalent of one railcar is \$12,258. Cost savings of rail over truck is \$4,826.00. There would be a local drayage cost from the rail port to the final destination of the product.

These calculations are based on researched actual freight rates for OTR trucking, drayage, transload costs and rail rates.



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Types of End-Users Related to Long Term Rail Utilization

1. SHORT TERM USAGE

These end users will exist throughout the life cycle of the rail port facilities. They are best described as temporary users, with a short-term need, driven by freight cost and convenience to a specific project. They can be locally based, example; railcar loads of Seal Coat material to be used for local highway and street projects. They may also be transient end users, who are passing through the area as they work on infrastructure projects spanning a regional or national scope, example; pipeline construction projects requiring the use of railroad cars to deliver large quantities of pipe and equipment. These end users are many times the best source of initial cash flow due to their immediate needs and the temporary and mobile nature of their internal operating plans.

2. INTERMEDIATE TERM USAGE

These end users will typically be manufacturing or distribution companies whose function is to serve a business or resource with a defined life span or a distribution center developed to meet regional needs until a more centralized distribution center can be determined to be feasible.

Example: a steel fabrication company whose purpose is providing pressure tanks for the hydraulic fracturing industry, with the understanding that the natural production processes in an oil field will have a defined life span of several years. An example of a similar life span distribution center would be a large chain building supply company that would receive rail car loads of lumber, in a high volume. When market patterns shift the small to medium distribution center will give way to a much larger distribution center, better located to serve more retail building supply outlets.

3. LONG TERM USAGE

The long-term end user is the primary purpose for the two San Angelo rail port facilities development. If the marketing and utilization plan is successful, they will become long term anchor rail users. Long term users can best be defined as those who are generational in nature to a community, with long standing histories of steady employment. They will sustain a reliable tax base, while providing the economic benefits that meet the community's needs over a life span measured in decades.

Example: A major bridge or steel building production company whose overall capital investment in local facilities requires more than, at minimum, ten years to recover. Convenient access to a less costly method of shipping and receiving freight provides this type of user better control of their supply chain, due to a consistent supply of resource material being available. The reduced cost of freight, shipping and receiving, allows this type of user the ability to weather normal economic fluctuations over the period of time required to recover long term capital investments.



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The first two types of user will support the initial reduction of up-front capital costs and operating cost of a rail port facility. They will create short to intermediate term positive economic impact to the community but must be viewed from a tactical perspective when considering the overall long-term economic maintenance of a community.

The third type of user is the bed rock of community economic development that all cities, towns, and counties strive to attract and maintain.

Conclusions

The operation of the two multi-purpose, multiple-commodity, San Angelo inland rail port facilities is viable and economically sound. The South Plains & Lamesa Railroad will be a part of an on-going Emerging South Orient Freight Corridor economic development consortium in coordination with other emerging freight corridor stake holders, and has identified increased rail traffic opportunities created by the opening of the International rail bridge at Presidio.

Examples of Local San Angelo Rail Users

The rail port will best serve what is now a large but underserved segment of the local economy. These are shippers and receivers that are best described as businesses that can immediately consume or store more than 4 to 5 heavy truck loads of any commodity in a single freight move or a business employing freight containers, which can be loaded at their facility and placed on a specifically designed railroad car common in the industry. *Example 1)* A regional agricultural business importing fertilizers, seeds, fuels, livestock feed grains and grains for processing. Exportation examples are cotton lint, cotton seed, harvested grains. *Example 2)* Local industrial businesses importing and exporting steel, cement, resources for food processing, chemicals, fuels, industrial gasses, equipment, wood and wood products.



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Rail Car Types



Auto Carrier Rack Cars with C4 Covered Hoppers (middle)
at San Angelo TXPF Classification Yard, January 2020



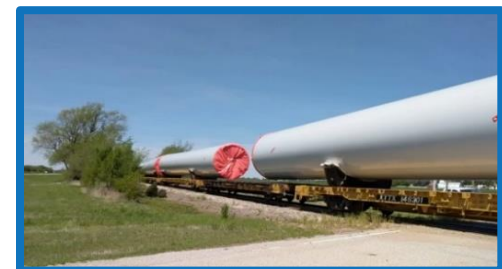
Standard Box Car



Covered Steel Coil Gondola



Open-Top Steel Coil Gondola



Wind Tower Component Cradles



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