Tealinc

Touchbase

AUGUST 2016

In This Issue

- Out & About!
- Railroad & Policy
- Mechanical Brief
- Railroad Traffic
- Industrial Inside
- Financial Focus
- The Edge

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Tealinc to attend NEARS conference in September!

Canada to speed up phaseout of DOT-111's for crude oil use

The new timeframe calls for phasing out unjacketed legacy DOT-111 tank cars six months early and legacy jacketed DOT-111 cars 16 months earlier than called for

Out & About with Tealinc!

Tealinc, Ltd. President, Julie Mink, and Manager Value Creation – Customer Support, Theo Mink, will be representing Tealinc, Ltd. as attendees of this falls North East Association of Rail Shippers (NEARS) meeting. The event will be held September 21 – September 23 in Portland, Maine. *Sign up for the conference here.*

Contact Julie or Theo to set up a meeting.

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Read Julie Mink's Biography

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Read Theo Mink's Biography

Railroad & Policy Updates

Canada's Transport Minister Marc Garneau announced an earlier deadline of Nov. 1 for the railroad industry to phase out use of legacy DOT-111 tank cars for crude oil service.

The new timeframe calls for phasing out unjacketed legacy DOT-111 tank cars six months early and legacy jacketed DOT-111 cars 16 months earlier than called for under Protective Direction 38, according to a Transport Canada press release.

The previous deadlines were May 1, 2017, for non-jacketed cars and March 1, 2018, for jacketed cars. DOT-111 cars must be removed entirely for all flammable liquids by April 30, 2025.

Legacy tank cars are those built prior to the CPC-1232 standard.

"Accelerating the phase out of legacy DOT-111 tank cars in crude oil services is another crucial step in improving the safety of communities along our railway lines," said Garneau. "By removing the least crash resistant tank cars in service, we continue to modernize how dangerous goods are shipped in Canada and further protect Canadians and their families who live near Canada's rail network."

The Railway Association of Canada (RAC) officials released a statement saying it "strongly supports" the accelerated timeframe for the phase-out.

"Removing this tank car model from service sooner is an effective step towards ensuring the safe transportation of dangerous goods in Canada," said RAC President and Chief Executive Officer Michael Bourque. "We welcomed harmonized Canada-U.S. tank car standards introduced last year, and we're equally pleased with [this] announcement."

Canada's railways advocated for stronger tank-car standards that included

increased shell thickness, jacket protection and full-height shields to protect the car form puncturing, according to RAC.

The requirements are reflected in Transport Canada's new TC-117 tank-car standard, which was introduced in May 2015.

Rail customers and leasing companies own the vast majority of tank cars, and are responsible for updating and retrofitting their fleets, RAC officials said.

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Meanwhile, the Transportation Safety Board of Canada (TSB) endorsed Garneau's announcement as a positive step to improve tank-car safety.

"We look forward to continued strong action from both the regulator and industry to reduce the risks associated with the transportation of crude oil and other flammable liquids by rail," said TSB Chair Kathy Fox in a prepared statement.

Learn more at:
http://www.progressiverailroading.com/safety/news/Canada-to-speed-up-phaseout-of-DOT111s-for-crude-oil-use--48943?email=julie@tealinc.com&utm_medium=email&utm_source=prdailynews&utm_campaign=prdailynews07/26/2016

Mechanical Brief with Steve Christian

AAR Field Manual - Rule 115 "DAMAGED AND DEFECTIVE CAR TRACKING (DDCT)" in a nutshell

There seems to be some confusion on the part of some car owners when it comes to the Damaged and Defective Car Tracking System (DDCT). In this article, I will attempt to give you the basics of the rule and then, with some practice with the system, you can get it to work for you. The process works like this. Per AAR Interchange Rule 114, a DDCT user must enter their contact information in FindUs.Rail. When there is an incident with a railcar associated with the mark assigned to this DDCT user, the DDCT user will receive an e-mail message from Railinc - DDCT with reference to a particular railcar, an incidence and an AAR rule reference. Typically, the DDCT notice includes information regarding a necessary repair and requests that the DDCT user provide disposition for the railcar so that the railcar can be sent to the railcar repair shop of the DDCT user choosing. If the DDCT user doesn't respond with disposition for the car within the prescribed time limit (generally 72 hours), the railroad will send the railcar to the shop of their choosing and you get stuck with the freight charges.

Back in the good old days, all official records concerning damaged and defective cars were handled using form letters that were passed back and forth between parties by snail-mail. The time that it took to get resolution to an incident was excessive. Written records and memories were lost. Thanks to the information age and technology, everything is processed through the DDCT system. It is definitely a vast improvement over the old paper shuffling system but you do need to understand how it works.

First, let's look at what DDCT is designed to do. DDCT handles the flow of information concerning the following AAR Rules:

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The car owner then has 7 days to answer the e-mail in DDCT with settlement value (calculated on their site using your car's cost information, etc.), shop disposition, if you want any parts retained and if you wish to inspect the car. Inspection must take place within 15 days of receipt of the notification

It is critical that you have someone registered as a

- Rule 1 (includes all disposition requests that are car owner's responsibility noted in other AAR Interchange Rules)
- Rule 95- HANDLING AND/OR DELIVERING LINE RESPONSIBILITY. This defines when the railroad is responsible for the damage to your car. If they are responsible under Rule 95, they are responsible for movement of the car to your designated shop and the cost of repairs.
- Rule 96-OWNERS RESPONSIBILITY. This means that anything that does not fit the definition of Rule 95 damage is repaired at the sole expense of the car owner.
- Rule 102-DEFECT CARDS. Whenever the railroad damages your car as per Rule 95, they are required to prepare a defect card electronically that is you authority to bill the railroad for the repairs required. In the old days, a railroad employee would write up a heavy paper record that would roll up and go in the defect card holder on the damaged car. It would stay there until the car arrived at the shop where it was to be repaired. That piece of paper was your authority to bill the railroad for the repairs. Any problem you can imagine happening with this system came true over the years. Score one for the information age.
- Rule 107-HANDLING OF DAMAGE OR DESTROYED EQUIPMENT. This is where your car has been damaged or destroyed and the railroad needs to know their options. They will want to know the depreciated value of the car and if it is repairable what shop do you want it sent to. The railroad has to notify you via DDCT e-mail within 7 days of the incident. **The car owner then has 7 days to answer the e-mail in DDCT with settlement value (calculated on their site using your car's cost information, etc.), shop disposition, if you want any parts retained and if you wish to inspect the car. Inspection must take place within 15 days of receipt of the notification.**
- Rule 108-CARS REQUIRING EXTENSIVE REPAIRS, OWNERS RESPONSIBILITY. This rule is sets out the procedures to be followed when you have Rule 96 damage. The thing to keep in mind is that **you must respond to the DDCT generated e-mail requesting disposition to shop within 15 days.** If you don't do that, the railroad can move it anywhere and you get the freight charges coming back into service.

Here is an example of a notification e-mail that you would receive:

> *"A new defective car DDCT incident (incident ID = BIGRR00111222) has been created for equipment owned by your company (equipment = ABCX000011). You may click the link below to view details of the incident.*
> *https://www.railinc.com/ddcts/notifyEmail/incident/view/111222*
>
> *Please contact Railinc Customer Support at csc@railinc.com or 1-877-*

724-5462 if you have any other questions."

DDCT user in Railinc's FindUs.Rail.

It is critical that you have someone registered as a DDCT user in Railinc's FindUs.Rail. This person needs to be someone who will receive the DDCT notice and will be available to keep the ball rolling on any incident that crops up. The time limits that are presented by DDCT are solid (at least on the car owner's part) so you need to be prompt and precise with your responses. If you do not have a contact designated as your DDCT user, the contact you've designated as your Car Repair Billing (CRB) and / or Umler contact will be designated as your DDCT user and will receive this DDCT notice.

Need more help understanding this or other Railinc processes? Tealinc stands ready to help!

Need more help understanding this or other Railinc processes? As always, Tealinc stands ready to employ our many years of experience and varied talents in the railroad industry to work for you. We're just a phone call or email away!

Steve Christian is the Manager Value Creation-Railcar Performance Manager for Tealinc, Ltd. You may contact Steve directly in his Colorado office at (719) 358-9212 or via email at ***steve@tealinc.com****.*

Railroad Traffic

The Association of American Railroads (AAR) [July 6, 2016] reported weekly U.S. rail traffic, as well as volumes for June 2016.

June 2016 carload traffic down 7% from June 2016

Carload traffic in June totaled 1,245,025 carloads, down 7 percent or 93,687 from June 2015. U.S. railroads also originated 1,295,240 containers and trailers in June 2016, down 5.6 percent or 76,920 units from the same month last year. For June 2016, combined U.S. carload and intermodal originations were 2,540,265, down 6.3 percent or 170,607 carloads and intermodal units from June 2015.

Carloads of grain, misc. carloads, and waste and nonferrous scrap up while carloads of coal, petroleum and petroleum products, crushed stone, sand and gravel were down

In June 2016, six of the 20 carload commodity categories tracked by the AAR each month saw carload gains compared with June 2015. These included: grain, up 13.8 percent or 12,982 carloads; miscellaneous carloads, up 17 percent or 4,569 carloads; and waste and nonferrous scrap, up 16.4 percent or 2,907 carloads. Commodities that saw declines in June 2016 from June 2015 included: coal, down 16.4 percent or 73,194 carloads; petroleum and petroleum products, down 22.2 percent or 15,415 carloads; and crushed stone, gravel and sand, down 6.6 percent or 7,727 carloads.

Excluding coal, carloads were down 2.3 percent or 20,493 carloads in June 2016 from June 2015.

Rail traffic remains relatively weak,

Total U.S. carload traffic for the first 26 weeks of 2016 was 6,295,216 carloads, down 12.3 percent or 886,579 carloads, while intermodal containers and trailers were 6,713,003 units, down 2.1 percent or 147,056 containers and trailers when compared to the same period in 2015. For the first six months of 2016, total rail traffic volume in the United States was 13,008,219 carloads and intermodal units, down 7.4 percent or 1,033,635 carloads and intermodal units from the same point last year.

with slightly better coal volumes in June offset by continued weakness in intermodal caused in part by an inventory overhang and global economic uncertainty

"Rail traffic remains relatively weak, with slightly better coal volumes in June offset by continued weakness in intermodal caused in part by an inventory overhang and global economic uncertainty," said AAR Senior Vice President of Policy and Economics John T. Gray. "Because current economic indicators are presenting a mixed picture, it's not clear if railroads should be pessimistic or cautiously optimistic about the near- to medium term."

Visit the AAR at:
https://www.aar.org/newsandevents/Press-Releases/Pages/2016-07-06-railtraffic.aspx

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Industrial Inside

New cracks have emerged in the U.S. oil boom, thanks to the crash in prices orchestrated by OPEC.

U.S. oil boom isn't dead. It's plotting a 2017 comeback.

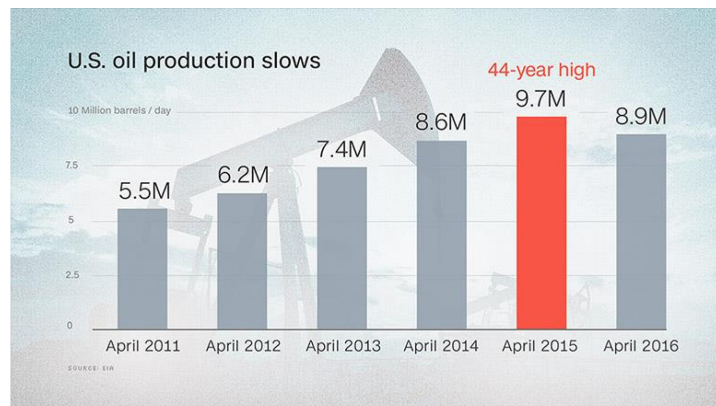
U.S. oil production is down seven straight months and recently dropped below the 9-million-barrel mark for the first time in nearly two years.

It's further evidence of how the supply glut and relentless pumping from Saudi Arabia, Iran and other OPEC nations have forced American shale companies to hit the brakes.

But OPEC has hardly dealt the U.S. oil boom a death blow. Production is still twice what it was in 2008 and there are early signs of a rebound thanks to the rally in oil prices. Goldman Sachs recently predicted American production will continue declining this year, but then resume growing in 2017 and beyond.

"Reacceleration of U.S. oil production may be gradual initially, but the world will still need U.S. shale longer-term," Goldman analysts wrote in a report this week.

"Reacceleration of U.S. oil production may be gradual initially, but the world will still need U.S. shale longer-term"



In other words, don't expect U.S. production to fall off a cliff.

It's clear there is tons of shale oil just waiting to be tapped when prices rise. The U.S. is sitting on 264 billion barrels of oil reserves, more than Saudi Arabia, Russia or any other country on the planet, according to Rystad Energy.

The U.S. pumped 8.9 million barrels per day in April, according to recently-released stats from the U.S. Energy Information Administration. That leaves output at a 20-month low and down by nearly 8% from April 2015, the best month for U.S. oil production since 1971.

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The pullback in U.S. output makes sense given the crash in oil prices from above $100 a barrel in mid-2014 to as low as $26 this past February. That's simply too cheap for most of the shale oil fields that fueled the U.S. oil boom to be profitable.

But the recent surge in oil prices back to around $50 a barrel is already encouraging more U.S. production from the likes of Pioneer Natural Resources (PXD) and RSP Permian (RSPP), which have said they would add rigs at these levels.

The closely-watched Baker Hughes oil rig count has increased in four of the last five weeks. And Goldman Sachs thinks that's just the beginning. The investment bank predicted depressed rig counts will double to 909 by the end of 2017.

Each new rig can pump an average of 27,000 barrels of crude per day, according to Capital Economics. That's quadruple the rate of two years ago, thanks to production gains and new technology.

Oil supply from the Lower 48 U.S. states could jump by 600,000 to 700,000 barrels per day between the fourth quarter of 2016 and the end of 2017

Oil supply from the Lower 48 U.S. states could jump by 600,000 to 700,000 barrels per day between the fourth quarter of 2016 and the end of 2017, Goldman predicted. Analysts believe the shale ramp-up will focus on these four key oil plays: the Eagle Ford and Permian Basin in Texas, North Dakota's Bakken and the DJ Basin in Colorado.

"We're probably in the bottoming phase on production," said Tom Kloza, global head of energy analysis at the Oil Price Information Service.

That may be good news for U.S. consumers. The ability of shale companies in Texas and North Dakota to start pumping again could keep a lid on oil and gasoline prices.

Read the entire article at:
http://money.cnn.com/2016/07/06/investing/us-oil-boom-2017-rebound/index.html

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Financial Focus

How strong jobs growth affects the Fed's plan to raise rates

You might think the most important decision of the year for Americans is whom to install in the White House. But according to Wall Street, little matters more for the direction of stocks than whether the Federal Reserve is going to raise interest rates again this year.

At the start of the year, the Fed has penciled in four quarter-point rate hikes for 2016. This, along with a nasty decline in energy prices, resulted in one of the worst-ever starts to the year, with a harrowing market selloff in January and February.

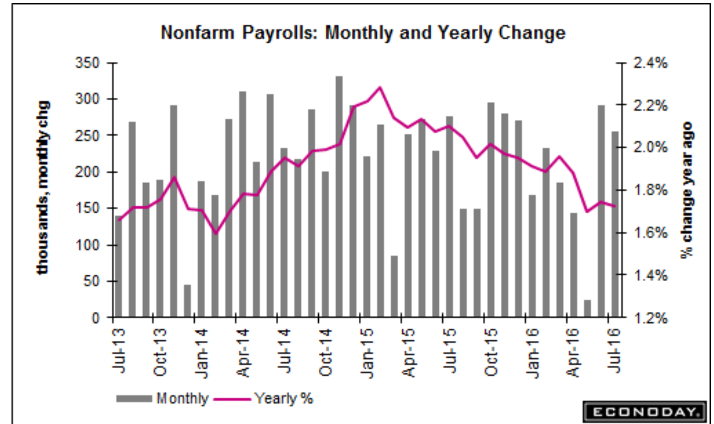
Since then, the central bank has slashed this rate hike guidance in half, and the market had been expecting this to be cut even further. All the way to zero, in fact. But [August 5, 2016] surprisingly strong payroll gains -- along with evidence of firming inflation -- suggest this assumption is no longer safe.

As a result, watch for investors to be a little less ebullient through August

Solid job growth, along with evidence inflation is firming (mainly due to housing costs), makes the case for delaying further interest rate normalization increasingly difficult

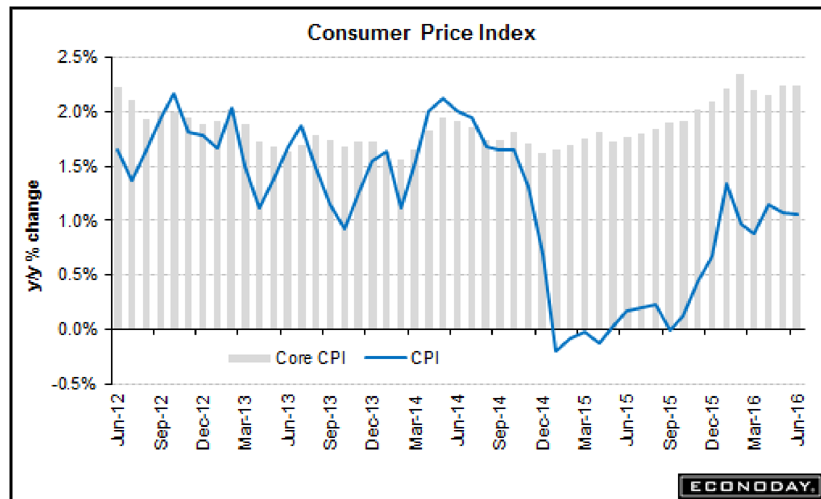
According to the futures market, odds of a September rate hike have doubled, to 18 percent, while odds of at least a single rate hike by December have increased to nearly 40 percent

and September as everyone awaits clarity on the Fed's intentions at their September and December policy meetings.



To recap: The economy created 255,000 jobs in July, much stronger than the roughly 180,000 that had been forecast. The unemployment rate held at 4.9 percent as well.

This is good news in that it bolsters the U.S. consumer at a time when shoppers are all that stands between the economy and a new recession based on the outright contraction in non-consumer activity. Separately, the Federal Reserve Bank of Atlanta boosted their third quarter estimate of GDP growth to 3.8 percent, a marked acceleration from the tepid pace seen in the first half of the year.



What's good for the economy and consumers could be bad news for the liquidity junkies in the market because it increases the odds the Fed will stick to its two-quarter-point rate hike forecast from June. Solid job growth, along with evidence inflation is firming (mainly due to housing costs), makes the case for delaying further interest rate normalization increasingly difficult. Especially after the much-maligned "Brexit" vote from June turned into a very short-lived tempest.

Second-quarter GDP disappointed to the downside, expanding at just a 1.2 percent seasonally adjusted annualized rate and 0.8 percent in the first quarter. And we're still in the midst of an ongoing corporate earnings recession, now expected to last into the third quarter (which would be the sixth consecutive quarter of falling profitability).

So while this increases the odds of a Fed rate hike in September, it's also alleviated concerns about the health of the American consumer.

For now, the market is taking the specter of higher interest rates in stride.

Before the end of the year, one of two things must happen: Either Fed Chair Janet Yellen disappoints stock market bulls by hiking rates faster and more aggressively than expected, or she coddles equities at the risk of upsetting the Treasury bond market by fanning the flames of inflation

According to the futures market, odds of a September rate hike have doubled, to 18 percent, while odds of at least a single rate hike by December have increased to nearly 40 percent.

Traders believe there is only a 6.7 percent chance the Fed hikes rates twice this year. Translation: Despite core inflation above the Fed's 2 percent target and rising, and job growth solid, it's hard to believe the Fed will turn hawkish now after years of coming up with new excuses to delay rate hikes.

From Brexit to worries about China and even concern about the performance of the U.S. stock market have all been used to justify the Fed's persistent dovishness. But a few more months like this will make further delays a direct risk to the credibility of the central bank and could result in an undesirable rise in long-term interest rates, as bond traders price in runaway inflation pressure.

Before the end of the year, one of two things must happen: Either Fed Chair Janet Yellen disappoints stock market bulls by hiking rates faster and more aggressively than expected, or she coddles equities at the risk of upsetting the Treasury bond market by fanning the flames of inflation.

Read the entire article at:
http://www.cbsnews.com/news/job-surge-complicates-rate-hike-decision/

The Edge
... with Darell Luther

As kids start to gear up and head back to school, we hope you've had a chance to enjoy some time during the summer to go on a vacation, spend time outside or otherwise take advantage of the warmer weather! There are a few newsworthy industry events going on right now that we thought we'd share with you in case you're just getting back to work and are taking a look at your rail plan for the fall and winter.

Competitive Access

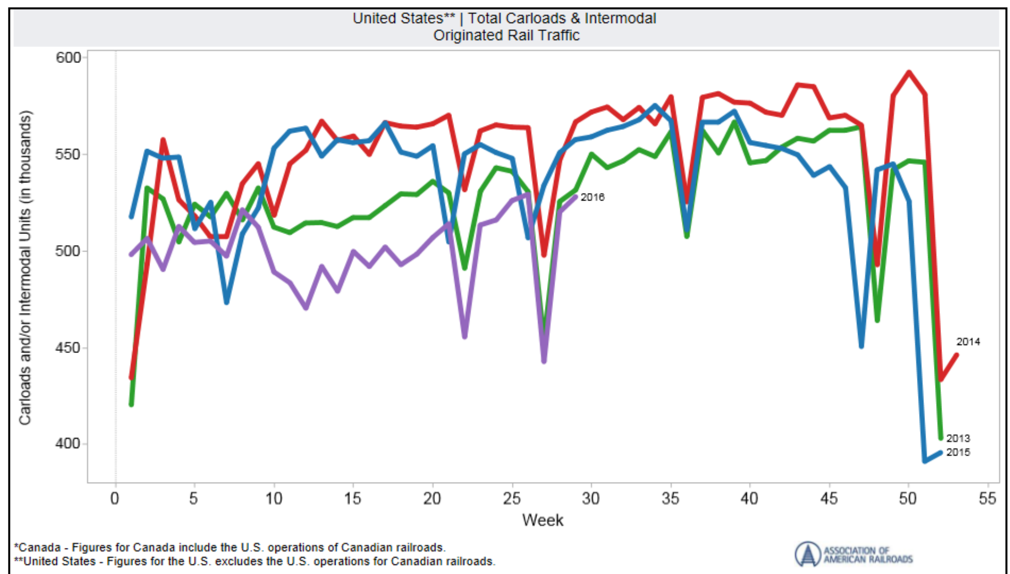
Competitive Reciprocal Switching has been on the front burner of many industry organizations since long term commodity contracts were offered to shippers and railroads began market dominance through mergers and acquisitions. As of July 25, 2016 the Surface Transportation Board (STB) granted in part a petition to adopt revised reciprocal switching regulations proposed by the National Industrial Transportation League (NITL). The STB proposes regulations in Docket No EP 711 Sub-N0 1 which would allow a party to seek a reciprocal switching option that is either practicable and in the public interest or necessary to provide competitive rail access. Comments are due September 26, 2016. NITL has been pressing for competitive access since mid-2011 and are now progressing their schedule with the STB.

Both sides of the competitive reciprocal switching argument bring up very valid points and concerns about the ongoing economic health for shippers and railroads alike. Many of these center around rail rate fairness for competing businesses, access to markets and ability of industries to compete (railroads included) for business within and across industries.

Whatever your stance and direction it would be a wise decision to, at the minimum, **read the proceedings** and take a hard look at your rail service and try to anticipate the impact.

Reflectorization Continues (MA-0164 Supplement 01)
The Association of American Railroads issued a Maintenance Advisory Supplement (01) on July 22, 2016. This supplement concerns the possible 112,000 railcars that were originally identified as possibly being equipped with grandfathered material (part 224). The Federal Railroad Administration (FRA) has recently granted AAR members a waiver from the requirements of 49 CFR Part 224.111, which requires the renewal of reflective material that has been applied for ten years. Railcars and locomotives so equipped will not require renewal during the waiver period as the AAR finishes development of a performance based evaluation procedure. As one of the conditions of this waiver, FRA requires the replacement of reflective material on railcars and locomotives that were equipped with reflective material applied before implementation of FRA's final rule on reflectivity on November 28, 2005. The bottom line is railcar and locomotive owners have approximately three years (MA 0164 will expire on 7/22/19) to bring their rolling stock into compliance through the application or any reflective sheeting that doesn't have the FRA-224 stamp. For complete details see MA-0164 at the Railinc website or call Steve Christian at 719-357-9212 or email Steve at **steve@tealinc.com** and he'll be happy to discuss it with you.

Railroad Traffic Data
Weekly railroad traffic data for the United States showing total carloads and intermodal continue to lag the previous three years originated rail traffic. The biggest loss in volume continues to be coal originations although a spurt of export business off the west coast has helped more recent numbers. Also trending down for the year are metals and ores and of course oil and energy development related commodities. On a plus side, grain is trending up on volume increase expectations in wheat, corn and soybean crops. Railroads are adjusting well to managing for profit, operating ratio and scaling investments back to match the economic health of the transportation markets by furloughing employees, adjusting management where needed and reducing rolling stock commitments for the near term. Profitability will require some rate adjustments so expect them in the next few months.



We look forward to talking with current and potential customers as you continue to strategize for your fall and winter traffic, adjust your railcar and locomotive fleet and make plans for improving your logistics chain. Remember, Tealinc is just a phone call away!

We look forward to earning your business!