Tealinc

Specializing in Rail Transportation Solutions

Tealinc, Ltd. is a railcar and locomotive operating lessor, broker, rail transportation consultant and transportation manager with a tactical and boutique approach to providing rail transportation solutions.

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Tealinc announces purchase of newly manufactured aggregate hoppers

NS released an announcement regarding changes to tariffs

Tealinc Touchbase Newsletter – August 2017

Tealinc Update

Tealinc, Ltd. is pleased to announce the acquisition of brand new aggregate open top hopper railcars for Tealinc private operating fleet. The railcars will be built by Vertex Rail Corporation in the fall of 2017 and will be available for lease once they are out of production.

In a press release published by Tealinc in July 2017, Julie Mink, President of Tealinc, Ltd. commented "As a railcar owner and active operating lessor we have been searching for a manufacturer capable of building railcars to serve our aggregate customers… we are confident that these Vertex built railcars will serve our aggregate customers while [they are] in the Tealinc private railcar fleet for many years to come!"

Looking to lease aggregate open top hoppers? If you have interest in utilizing these aggregate open top hoppers railcars or have alternative rail equipment needs (buy, sell, lease, trade, market), contact Tealinc sales team for more information.

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Railroad & Policy Updates

On August 1, 2017, NS announced changes to the following tariffs listed below. We have included the announcement below for Tealinc customer benefit.

Effective October 1, 2017, Norfolk Southern (NS) will be making changes to the following tariffs:

- Demurrage and Storage Rules and Charges tariff NS 6004-D
- Switching and Absorption Rules and Charges tariff NS 8001-A
- Accessorial Service Rules and Charges tariff NS 8002-A
- Conditions of Carriage 1-E

Below is a brief description of the changes to each tariff.

NS tariff updates may be requested online using Thoroughbred Pacesetter

- NS 6004-D – Demurrage and Storage Rules and Charges Effective 10-01-17 unless otherwise specified below. The revisions to this tariff are available for view on the NS website at: **http://www.nscorp.com/content/nscorp/en/ship-with-norfolk-southern/transportation-terms/other-requirements/demurrage-rules-andcharges.html**
- NS 8001-A, Switching and Absorption Rules and Charges: The revisions to this tariff are available for view on the NS website at: **http://www.nscorp.com/content/nscorp/en/transportation-terms/other-requirements/switching-and-absorption-rules-and-charges.html**
- NS 8002-A, Accessorial Services Rules and Charges: **http://www.nscorp.com/content/nscorp/en/transportation-terms/other-requirements/accessorial-services-rules-and-charges.html**
- Conditions of Carriage, 1-E: The revisions to the Conditions of Carriage are available for view on the NS website at: **http://www.nscorp.com/content/nscorp/en/transportation-terms/other-requirements/conditions-of-carriage.html**

Learn more at:
www.nscorp.com

What the Heck is "Line-of-Road Failure-No Cause Found"?

Severe reduction in trainline pressure results in emergency application of brakes

Mechanical Brief with Steve Christian

The railroads and the railroad industry in general have had finding a solution for undesired emergency stops (UDE's) on their radar for many years. Undesired emergency stops occur when a train goes into an emergency brake application that is not initiated by the engineer by moving the automatic brake lever into the emergency position or the conductor using the fireman side emergency valve and where no other cause can be found. The term for this phenomenon is now called a "Line-of-Road Failure-No Cause Found" or "LORF-NCF".

The genius of George Westinghouse invented a braking system for railroads that applied brakes when trainline air pressure is reduced. A severe reduction of trainline pressure results in an emergency application of the brakes. This system means that when a train pulls apart, both sections of the train will go into emergency and brake to a stop. Usually the cause of an emergency application of the brakes on a train is easy to diagnose; however, there are instances where it is not evident at all. The actions taken by the AAR are a way to utilize modern computer technology to identify suspect "bad actor" railcars that cause LORF-NCF's. The AAR also requires that shops perform air brake tests and inspects other factors that could cause or contribute to LORF-NCF's,

The AAR created Standard S-6020 in Section F of the Manual of Standards and Recommended Practices titled "DATA SUMMARY DEFINITION-LINE-OF-ROAD FAILURE-NO CAUSE IS FOUND."

July 1, 2017, AAR modifies Rule 3

AAR Rule 3.B revised to require track personnel to pay close attention to other factors when inspecting and testing a car

Verbiage added to Rule 3 to explain why a car is tagged with LORF-NCF

The process to identify “bad actors”, in very simplistic terms is:

- As railroads have undesired emergency stops (UDE’s) they accumulate the data by train and by car as required by the AAR.
- The information is shared with Railinc. Railinc slices and dices the data accumulated over time from the railroads to identify specific cars that could the culprits. Or, as AAR states it “An algorithmically derived metric from LORF-NCF event data to help identify potential Bad Actors.”
- The cars are shown in EHMS as an “LORFNCF” Alert and an “AAR Condemning” Warning Level.

The railroad currently operating the car in a train should remove it from the train as soon as practical and shop it at the nearest railroad shop. The car should then be dealt with as dictated in Rule 3 of the Field Manual of the AAR Interchange Rules. The changes to Rule 3 as shown in Change No.17-1, Effective July 1, 2017 are summarized below:

<u>Rule 3.A. Cause for Attention</u>
Chart A, under the 1st column labeled “All cars set out of trains requiring tests for items listed below Chart A, must receive attention per Chart A while on the handling line railroad” added line 14, which requires a Single Car Air Brake Test be performed per AAR Standard S-486 for “Car with open Line of Road Failure-No Cause Found (LORF-NCF) EHMS Alert.”

<u>Rule 3.B. Correct Repairs</u>
Paragraph 15 was revised to require repair track personnel to pay considerable special attention to other factors when a car is inspected and tested per Chart A line 14. These factors include:

- Excessive wear, slack, or bending on A or Bend uncoupling levers. Also check toggle clearance.
- Bent, broken, or defective end air hose arrangements. Reworked or fabricated arrangements may require additional focus. Pay special attention to trolley arrangements for proper travel and binding or fouling, bent, or broken conditions.
- A and B end hose support conditions and proper adjustment for height.
- A and B end angle cock conditions.
- Trainline conditions that may contribute to a stretch leak (broken brackets and missing pipe clamps, for example)
- A and B end intermediate air hoses must be inspected thoroughly, especially for issues that would arise during transition of slack action, such as binding through support mechanisms, pinching, and incorrect length. Inspect through range of travel.

Paragraph 16 was revised to require one additional Service Stability Test (S-486 3.8) and one additional Separate Vent Valve Test (S-486 3.4.3, if equipped) must be performed if a car passes the initial SCABT.

Rule 3.E. General Information

Paragraph 18 was added to explain why a car is tagged with the LORF-NCF EHMS alert in accordance with MSRP Section F, Standard S-6020.

Paragraph 19 was added to require that when a car is inspected and tested per Chart A line 14, Why Made Code 1A must be used when no other Why Made Code applies. It also states that LORF-NCF EHMS alert must be closed once the inspection and the SCABT are complete, within 24 hours. This will ensure that the car won't be switched out of another train for the same reason.

Rule 3.F Billing Repair Data Requirements

Why Made Code 1A = Undesired Emergency, Line of Road Failure-No Cause Found (LORF-NCF) EHMS Alert was added to paragraph 6.

While I am always suspect of changes like these, I can see benefits from reducing undesired emergency stops. UDE's can avoid a calamitous event

While I am always suspect of changes like these, I can see benefits from reducing undesired emergency stops (UDE's). The only good that can come from a train going into emergency under any circumstances is the avoidance of a calamitous event. Trains that go into emergency stress all of the equipment in the train, personnel on operating the train and the track. It can also result in derailments.

As always, Tealinc stands ready to employ our many years of experience with our varied talents in the railroad industry

I hope this article allows you to better understand the issue of UDE's. When you see the railroad BRC's start coming through for LORF-NCF related work on your railcars, you won't be totally surprised. It will be interesting to see how this all unfolds as time goes by. Perhaps an update will be in order. As always, Tealinc stands ready to employ our many years of experience and our varied talents in the railroad industry to work for you.

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) [August 2, 2017] reported U.S. rail traffic for the week ending July 29, 2017, as well as volumes for July 2017.

U.S. railroad carloads down 0.6 percent July 2017 compared to July 2016

U.S. railroads originated 1,019,239 carloads in July 2017, down 0.6 percent, or 6,079 carloads, from July 2016. U.S. railroads also originated 1,058,354 containers and trailers in July 2017, up 5.6 percent, or 55,997 units, from the same month last year. Combined U.S. carload and intermodal originations in July 2017 were 2,077,593, up 2.5 percent, or 49,918 carloads and intermodal units from July 2016.

In July 2017, nine of the 20 carload commodity categories tracked by the AAR each month saw carload gains compared with July 2016. These included: crushed stone,

Grain, motor vehicles & parts, petroleum & petroleum products experienced a decline from July 2016 to July 2017

U.S. carload traffic up 5.4% from the same period last year

EU Commission's Energy and Climate Action Dept. says coal imports have been on a downward trend since 2006

sand & gravel, up 15 percent or 13,458 carloads; coal, up 4 percent or 13,097 carloads; and chemicals, up 1.5 percent or 1,842 carloads. Commodities that saw declines in July 2017 from July 2016 included: grain, down 14 percent or 13,325 carloads; motor vehicles & parts, down 12.9 percent or 7,544 carloads; and petroleum & petroleum products, down 15.4 percent or 6,508 carloads.

"The decline in total rail carloads in July 2017 from July 2016 was very small at 0.6 percent, but it was the first carload decline since October 2016," said AAR Senior Vice President John T. Gray. "Beginning in July last year, certain categories of rail traffic — coal and grain in particular — saw a surge in rail volumes. That surge suddenly made comparisons to this year much tougher. That largely explains July's carload decline. Meanwhile, intermodal continues to do well — July's 5.6% gain is the sixth straight year-over-year monthly increase, and intermodal is on track to set a new annual record this year."

Excluding coal, carloads were down 2.8 percent, or 19,176 carloads, in July 2017 from July 2016. Excluding coal and grain, carloads were down 1 percent, or 5,851 carloads.

Total U.S. carload traffic for the first seven months of 2017 was 7,718,692 carloads, up 5.4 percent, or 397,999 carloads, from the same period last year; and 7,951,027 intermodal units, up 3.1 percent, or 235,512 containers and trailers, from last year. Total combined U.S. traffic for the first 30 weeks of 2017 was 15,669,719 carloads and intermodal units, an increase of 4.2 percent compared to last year.

Visit the AAR at:
https://www.aar.org/newsandevents/Press-Releases/Pages/2017-08-02-railtraffic.aspx

Industrial Inside

U.S. coal exports have jumped more than 60 percent this year due to soaring demand from Europe and Asia, according to a Reuters review of government data, allowing President Donald Trump's administration to claim that efforts to revive the battered industry are working.

The increased shipments came as the European Union and other U.S. allies heaped criticism on the Trump administration for its rejection of the Paris Climate Accord, a deal agreed by nearly 200 countries to cut carbon emissions from the burning of fossil fuels like coal.

The previously unpublished figures provided to Reuters by the U.S. Energy Information Administration showed exports of the fuel from January through May totaled 36.79 million tons, up 60.3 percent from 22.94 million tons in the same period in 2016. While reflecting a bounce from 2016, the shipments remained well-below volumes recorded in equivalent periods the previous five years.

They included a surge to several European countries during the 2017 period, including a 175 percent increase in shipments to the United Kingdom, and a doubling to France - which had suffered a series of nuclear power plant outages that required it and regional neighbors to rely more heavily on coal.

"If Europe wants to lecture Trump on climate then EU member states need transition plans to phase out polluting coal," said Laurence Watson, a data scientist working on coal at independent think tank Carbon Tracker Initiative in London. Nicole Bockstaller, a spokeswoman at the EU Commission's Energy and Climate Action department, said that the EU's coal imports have generally been on a downward trend since 2006, albeit with seasonable variations like high demand during cold snaps in the winter.

"Simply to know that coal no longer has to fight the government - that has to have some effect on investment decisions and in the outlook by companies, producers and utilities that use coal" – Luke Popovich

Overall exports to European nations totaled 16 million tons in the first five months of this year, up from 10.5 million in the same period last year, according to the figures. Exports to Asia meanwhile, totaled 12.3 million tons, compared to 6.2 million tons in the year-earlier period.

Trump had campaigned on a promise to "cancel" the Paris deal and sweep away Obama-era environmental regulations to help coal miners, whose output last year sank to the lowest level since 1978. The industry has been battered for years by surging supplies of cheaper natural gas, brought on by better drilling technologies, and increased use of natural gas to fuel power plants.

His administration has since sought to kill scores of pending regulations he said threatened industries like coal mining, and reversed a ban on new coal leasing on federal lands.

Taking Credit

Both the coal industry and the Trump administration said the rising exports of both steam coal, used to generate electricity, and metallurgical coal, used in heavy industry, were evidence that Trump's agenda was having a positive impact. "Simply to know that coal no longer has to fight the government - that has to have some effect on investment decisions and in the outlook by companies, producers and utilities that use coal," said Luke Popovich, a spokesman for the National Mining Association.

U.S. miners have learned to produce coal at a lower cost

Shaylyn Hynes, a spokeswoman at the U.S. Energy Department, said: "These numbers clearly show that the Trump Administration's policies are helping to revive an industry that was the target of costly and job killing overregulation from Washington for far too long."

…spike in demand could be temporary

Efforts to obtain comment from exporters Arch Coal (ARCH.N) and privately held Murray Energy Corp were unsuccessful. Contura Energy, which emerged as part of Alpha Natural Resource's bankruptcy and restructuring, and filed for public offering in May, declined to comment.

A spokesman for Peabody Energy, the largest coal producer, though without a major export profile, said the United States was generally a "swing supplier of seaborne coal."

Coal is transhipped from European ports before it is consumed, so it is hard to determine where shipments end up

U.S. Energy Information Administration analyst Elias Johnson said the U.S. coal industry may now be better positioned to meet foreign demand because U.S. miners have learned to produce at lower cost, after coming through a series of recent bankruptcies.

"There's the possibility that the U.S. will become more of a primary player in the global coal trade market," he said.

But he added there are also plenty of reasons the spike in demand could be temporary. For one thing, U.S. coal production and transportation costs are much higher than for other producers such as Indonesia and Australia.

Because coal can often be transshipped from European ports before it is consumed, it is also hard to determine where shipments ultimately end up.
Johnson pointed out that some of the fuel shipped into Western Europe, for example, could be making its way to other places like Ukraine, which is having trouble securing coal from its separatist-held regions.

Trump said last month that his administration is offering more coal to Ukraine, but it was unclear how, given deals are typically worked out between companies.

Read the entire article at:
https://www.reuters.com/article/us-usa-coal-exports-idUSKBN1AD0DU

Financial Focus

The Fed's about to try something that almost always ends in recession

The Federal Reserve's looming attempt to shrink its mammoth portfolio of bonds comes with an ugly track record: Virtually every time the central bank has tried it in the past, recessions have followed.

Over the past several months, the Fed has prepared markets for the upcoming effort to reduce the $4.5 trillion it currently holds of mostly Treasury's and mortgage-backed securities. The balance sheet ballooned as the Fed sought to stimulate the economy out of its financial crisis morass.

The Fed has embarked on six such reduction efforts in the past — in 1921-1922, 1928-1930, 1937, 1941, 1948-1950 and 2000.

Of those episodes, five ended in recession, according to research from Michael Darda, chief economist and market strategist at MKM Partners. The balance sheet trend mirrors what has happened much of the time when the Fed has tried to raise rates over a prolonged period of time, with 10 of the last 13 tightening cycles ending in recession.

…no precedent for double-digit annual declines in the balance sheet/base that will be to occur late 2018

"Moreover, outside of the 1920s and 1930s, there is no precedent for double-digit annual declines in the balance sheet/base that will likely begin to occur late next year," Darda said in a note.

Indeed, the Fed's efforts have been unprecedented.

Three rounds of purchases through a program known as quantitative easing or, more colloquially, "money printing," brought the balance sheet to his level. Recently revealed plans show how the Fed will scale back.

Since it began the balance sheet expansion, the Fed has reinvested the proceeds it gets from bonds each month to keep the size stable. In a program that is expected to be announced in September, the Fed will begin letting a specified size roll off each month and reinvest the rest. The roll-off target will be small and increase quarterly until it reaches $50 billion a month.

Current market expectations are that the Fed will keep rolling off proceeds until the balance sheet hits around $2 trillion to $2.5 trillion, a process that could take four or five year

Current market expectations are that the Fed will keep rolling off proceeds until the balance sheet hits around $2 trillion to $2.5 trillion, a process that could take four or five years. Fed Chair Janet Yellen likes to say the process will be akin to "watching paint dry" and won't be disruptive to markets.

However, skeptics question whether it will be so painless.

"Against this historical portrait, a pressing question arises: will credit markets and equity volatility remain quiescent moving into the second half of next year when balance sheet reduction and rate hikes — a double-barreled tightening — begin to move along at full force?" Darda said.

He believes that if the Fed follows a slow trajectory that is mindful of low inflation trends "then we think there will be nothing to worry about." However, he cautions that the Fed may not have as much room to tighten policy as it thinks.

Markets generally seem to agree with Darda.
While Fed officials have indicated that one more rate hike this year is likely, traders give it just a 45.5% chance, according to the CME. Fed funds futures contracts imply a rate by the end of 2018 at 1.45%, which point to barely two rate increases

Various economists, including a group

calling itself Fed Up, are urging policymakers to increase their current inflation target from 2% and hold off on further rate hikes

between now and the end of next year.

By contrast, Fed projections released in June pointed to four moves during the same period.

Various economists, including a group calling itself Fed Up, are urging policymakers to increase their current inflation target from 2% and hold off on further rate hikes.

Learn more at:
https://www.usatoday.com/story/money/2017/08/02/feds-try-something-almost-always-ends-recession/534686001/

The Edge
… with Darell Luther

Selling Your Business to the Railroad

Here at Tealinc we spend a good deal of time consulting with bulk freight shippers on how to get the railroads attention when the shipper wants to site new facilities or convert other modes of transportation to rail. Railroads get a slew of requests from shippers that are not much more than, "if you lower my rail rates I can be more competitive thus ship more railcars and we'll all win". Too bad it's not that easy. Railroads have migrated their pricing, marketing, market division and operating requirements significantly over the last few decades. A way to win-win with railroads is to try and understand where they're coming from and tailor your requests to their way of analyzation and thinking. I know it's crazy to have to sell your business to anyone, most vendors are really appreciative to have an additional paying customer. In the railroad business paying customers that want to do anything out of the ordinary are let in thru their ability to convince the railroad that their business meets the railroads criteria. They aren't necessarily invited in.

In the late 1980's I spent a few years in marketing at a major class I railroad setting prices for a specific group of commodities. At the time, we were converting most shippers from a contract rate form to public tariff rates on all deregulated commodities to get a better feel for "market rates" and to be able to move with the market. Keep in mind that this was "just" post Staggers and the railroads were relatively new to deregulation. We were essentially feeling our way with this new rail rate setting approach.

In the early 1990's I spent another few years working with a different major class I railroad running a unit train group, including crew calling, dispatch of unit trains, lining up power (locomotive) requirements as well as having cradle to grave responsibility for about 40% of the railroads railcar fleet. Being responsible for such an operation sure puts perspective on managing costs and meeting customer requirements. If you mess up a unit train in route it's really hard to hide your mistake!

One career gave me a good perspective on driving revenue to the top line thru price and efficiency measures. Namely measured in revenue per railcar load and incenting consolidated loading to decrease railcar handling and incenting more unit train operations that had regular routes and reliability. The other career drove cost containment thru better utilization of assets (locomotive, railcars and people) and operating costs (fuel and people). During those time frames the railroad took most all business that wanted to ship via rail as long as it met minimum revenue and later margin per railcar requirement. The railroads weren't at capacity during this time frame and had not yet gone thru the track and customer rationalization that it did in the mid to late 1990's. There was certainly little in the way of capacity constraints.

Leap forward to the 2000 era and you will find the consolidation of railroads via mergers, spinning off of shortline railroads to individuals and later major holding companies and the beginnings of active investor participation in railroad earnings requirements. Nearer to present times you find that mergers are all (maybe) but done and investor groups are actively participating in "running" the bottom line requirements of major class I railroads. Witness the Hunter Harrison move to CSX after proving his investor focus at CN and CP. Other railroads such as BNSF (Berkshire Hathaway – private) Union Pacific, NS are focusing on the same metrics in a much quieter way.

Reviewing second quarter earnings call the CSX shows 8% revenue increase, 6% expenses decrease, operating income increase of 14% with an operating ratio of 67.4% or a 150 bps decrease. Union Pacific shows a 10% revenue increase, a mostly fuel related 4% increase in costs, a 21% increase in operating income and an operating ratio of 61.8%. Norfolk Southern shows a 3% revenue increase, 4% reduction in expenses, a whopping 15% increase in operating income and a slight increase of 3% in operating ratio. All of this on volumes that are rebounding from 2016, which were anemic when compared to prior years (see chart below), that certainly reflect the major coal and crude oil down turn and DOT 111 benching of tank cars for crude oil shipments.

So how are railroads sustaining financial growth on significantly lower volumes when compared to 2014 and 2015? One would logically assume railroads have rail line capacity with the significant infrastructure investments they've made over the years to support the higher traffic demands? If you assume that most large scale rail rationalization has been completed with the formation of some 500 shortline railroads there can only be one answer, "they are being primarily investor driven first and customer driven second".

For the shipper this means continuous rate increases at a steady pace year over year. It also means that hopefully your portfolio of logistics business that goes to the railroad fits in with their operating plans each year given any operations changes.

Back to the topic of selling your business to the railroad. You're probably getting the picture, railroads want to make the highest revenue possible at the lowest operating cost for the type of business that requires heavy bulk commodity business or long distance intermodal business. To "sell" your business to the railroads it's important to understand the fit of your business with this model. Do you have steady reliable business? Does the railroad already haul this business in the same corridor you're proposing? Does the introduction of your business impact any current railroad business or more importantly is it simply a shift of business away from your competitors but not a shift for the handling carrier (is it truly new business or just displaced business)? How does it fit in with the current local and long distance operations of the railroad? Is it beneficial business to train starts or filling current train capacity? What's the operating cost impact and what's the revenue gain?

To truly understand the example set of questions above one has to have a complete understanding of the commodity market including the railroads market view of the commodity being transported. You need to look at it from your perspective and from the railroads perspective. When you have these two viewpoints you can craft a method to "sell" your business to the railroad.

We look forwarding to earning your business!

Tealinc, Ltd. is dedicated to creating value for our customers. We specialize in Rail Transportation Solutions by buying, selling, leasing, consulting and managing rolling stock fleets and locomotive assets with our customers' long term and short-term requirements in mind. We participate in nearly every industry supported by rail; sell, lease and purchase nearly every type of freight railcar; and provide management and consulting services to both novice and experienced rail shippers. We look forward to being your one-stop shop for all your transportation needs.

Contact Tealinc, Ltd. Today!