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Touchbase

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Holiday service reductions planned for 2014

North Dakota's Bakken region is trying to understand why that fuel seems more prone to explode than other types of crude

Railroad & Policy Updates

In an effort to provide more information for advanced planning of supply chain logistics, Kansas City Southern (KCS) is providing the following planned holiday shutdown schedule for the remainder of 2014. A reminder will be provided in advance of each holiday.

The Kansas City Southern Railway Company in the U.S.

- February 17 - President's Day
- April 18 - Good Friday
- May 26 - Memorial Day
- July 4 - Independence Day
- September 1 - Labor Day
- November 27 - Thanksgiving Day
- November 28 - Day after Thanksgiving
- December 24 - Christmas Eve
- December 25 - Christmas
- December 31 - New Year's Eve

Kansas City Southern de Mexico, S.A. de C.V.

- February 3 - Constitution Day
- March 17 - Benito Juarez Birthday
- April 17 - Maundy Thursday
- April 18 - Good Friday
- May 1 - Mexico Labor Day
- September 16 - Mexico Independence Day
- November 17 - Mexico Revolution Day
- December 25 – Christmas

Service requests for these days should be emailed to Customer Solutions in the U.S. or Mexico approximately two weeks before each holiday. Service requests will not guarantee service. Once all requests are received, the local operation will attempt to secure resources to perform service. If no message is received, it will be understood that no service is needed.

Contact the KCS for more information at:
customer_solutions@kcsouthern.com

Crude-By-Rail Test Results Expected in Weeks, U.S. Regulator Says

Officials should know within weeks whether energy companies in North Dakota's oil patch are properly testing and labelling the kinds of crude-by-rail shipments involved in recent fiery accidents, a U.S. regulator told Reuters.

Technicians have sampled crude oil at wellheads, and at truck and train loading stations in North Dakota's Bakken region to try to understand why that fuel seems more prone to explode than other types of crude.

Producers and shippers could face tough fines or even criminal penalties if

they are found to be wrongly handling dangerous material, said Cynthia Quarterman, who oversees dangerous train shipments as administrator of the Pipeline and Hazardous Materials Safety Administration (PHMSA), part of the U.S. Department of Transportation.

"At this point, everything is on the table," said Quarterman. "It is the shipper's obligation to put their product in the right tank car."

A string of explosive train accidents involving Bakken crude, including a July derailment and explosion in Quebec that killed 47 people, have intensified pressure on regulators to ensure crude-by-rail shipments are safe.

There has been a string of explosive train accidents involving Bakken crude

The latest incident came on January 7, 2014 in the evening, when a train hauling crude oil and fuel gas derailed and caught fire in New Brunswick.

A week earlier, a train laded with Bakken crude had a fiery collision with a grain-hauling train in North Dakota.

"The industry needs to step forward," said Quarterman, interviewed in her office at PHMSA headquarters in Washington, D.C., before the latest Canadian mishap.

GAS-PACKED CRUDE

Officials have in recent weeks begun to more closely scrutinize fuel produced in the Bakken, Quarterman said, and technicians are studying whether dangerous gas is loaded along with crude oil.

In the far-flung Bakken oil fields, many producers load liquid fuels onto tankers but have no way to capture and store the gasses that erupt from the wellhead.

But by loading tankers under pressure, industry officials say, they can pack more of those volatile gasses, sometimes referred to as "light ends," onto trains bound for refineries.

"From the producer's point of view, it's often a choice of either putting those light ends on the tank car or flaring them – basically, throw them away," said Harry Giles, former director of Crude Oil Quality Association, which sets standards for the industry.

"We are concerned that perhaps shipper have not been fulfilling their requirements in terms of testing and classifying and knowing what is coming out of the field"

Early this month PHMSA ordered shippers to "sufficiently degasify hazardous materials prior to and during transportation" among other safety steps conceived days after the North Dakota derailment.

Quarterman said the lab results due in weeks will guide officials as they consider penalties against shippers who have wrongly labelled dangerous cargo and also shape thinking on industry-wide reforms.

"We are concerned that perhaps shippers have not been fulfilling their requirements in terms of testing and classifying and knowing what is coming out of the field," Quarterman said. "Whatever is in the crude will determine what our next steps are."

Trains carried nearly 700,000 barrels a day of North Dakota oil to market in October, a 67-per-cent jump from a year earlier, according to the state pipeline authority.

For many producers, moving crude oil on rail cars has been the preferred means of bringing the product to distant refineries.

Read the entire article:
http://www.theglobeandmail.com/report-on-business/industry-news/energy-and-resources/us-will-have-answers-in-weeks-on-crude-by-rail-mishaps-regulator-says/article16244341/

Railcar modification project success

Mechanical Brief with Steve Christian

Recently, I had the rare opportunity to look at rotary dump gondolas that received a major modification that one of my shops performed over 30 years ago. These cars were a builder's early attempt to produce lightweight steel coal cars with stub sills rather than a through center sill. Within the first couple of years of service cracks began showing up in the body bolster top cover plate to side sill connection welds. The cracks would start in the welds and travel around the radius of the formed side sill in an upward progression towards the side sheets.

The railcar builder designed a very extensive modification that transferred all of the concentrated forces at this weak point to a long section of the formed side sill by way of a 1.5", 10 foot steel bar mounted under the horizontal surface of the side sill at all 4 corners of the car. These bars were cut to fit the car structure precisely with ground edges to allow for large multiple pass welds. Many of the welds were overhead. There were many other aspects of the modification but this was the most prominent part of the fix. The engineer that designed the modification had very detailed requirements for component part production, fit up and welding. The tolerances and standards were very exacting. All work was not only checked and signed off by our QA Department but also by a Customer Service Engineer from the car builder. At the time, I was very confident and proud of the workmanship on this project. My inspection 30+ years later confirmed the quality and effectiveness of this work.

...select the engineer that has the credentials and a proven track record...

Though I believed these modifications were applied properly, you never really know how well the modification's engineering will withstand decades of rotary dumping. I now look back and believe that this project was the perfect alignment of solid engineering, quality materials made to exacting standards, strict modification procedures and quality workmanship.

...select a shop with the right

You should take great care whenever you enter into a railcar modification program. Do your homework and select the engineer that has the credentials and a proven track record to make your project a success. He should have a number of projects that he has handled from A to Z to demonstrate his abilities. After selecting an engineer, work with him to select a shop with the right certifications and track record of successful

certifications and track record...

projects. Once everything is in place, you should monitor the project in stages to ensure everything is done properly, within budget and on time. If your time and resources are limited, Tealinc stands ready to assist you in any aspect of your project including complete project management.

Steve Christian is the Manager Value Creation-Railcar Performance Manager for Tealinc, Ltd. You may contact Steve directly out of our Nebraska office at (308) 675-0838 or via email at ***steve@tealinc.com****.*

Railroad Traffic

AAR reports increased intermodal, carload traffic for November 2013

The Association of American Railroads (AAR) December 5 reported a increased U.S. rail traffic for November 2013 over November 2012. Intermodal traffic in November totaled 1,007,549 containers and trailers, up 7.8 percent (73,004 units) compared with November 2012. The weekly average of 251,887 intermodal containers and trailers per week in November 2013 was the highest weekly average for any November in history. Carloads originated in November 2013 totaled 1,145,353, up 1.3 percent (14,931 carloads) compared with the same month last year.

Eleven of the 20 commodity categories tracked by the AAR each month saw year-over-year carload increases in November over the same month last year. Commodities with the biggest carload increases last month included grain, up 20.6 percent or 15,685 carloads; petroleum and petroleum products, up 20.0 percent or 9,691 carloads; and motor vehicle and parts, up 10.8 percent or 6,826 carloads.

Commodity categories with carload declines last month included coal, down 4.3 percent or 20,057 carloads from November 2012, and metallic ores, down 10.1 percent or 2,982 carloads.

Excluding coal, U.S. carloads were up 5.3 percent, or 34,988 carloads, in November 2013 compared with November 2012. Excluding coal and grain, U.S. carloads were up 3.3 percent, or 19,303 carloads, in November.

Commodities categories with the biggest carload included grain, petroleum and petroleum, and motor vehicle and parts

“U.S. rail traffic in November 2013 saw a big decline in coal carloads that was more than offset by gains in carloads of grain and petroleum products,” said AAR Senior Vice President John T. Gray. “Carload traffic continues to be consistent with an economy that’s growing at a moderate pace. Meanwhile, rail intermodal volume was extremely strong in November, demonstrating the tremendous value that intermodal has become for rail customers.”

Visit the AAR at:
https://www.aar.org/newsandevents/Freight-Rail-Traffic/Pages/2013-12-05-railtraffic.aspx#.Uqj32NJDsoM

Industrial Inside

Production of crushed stone and sand and gravel is up year over year for the third quarter of 2013.

About 367 million of crushed stone was produced and shipped for

U.S. aggregates production rises in Q3 2013

consumption in the U.S. in the third quarter of 2013, an 8-percent rise over the same period of 2012, according to a report the U.S. Geological Survey (USGS) released December 2, 2013.

The estimated production for consumption in the first nine months of 2013 was 904 metric tons, also an increase from the first nine months of 2012.

USGS estimates the U.S. output of construction sand and gravel produced and shipped for consumption in the third quarter of 2013 was 279 metric tons, a 9-percent rise over the third quarter of 2012.

The estimated production for consumption in the first nine months of 2013 was 657 metric tons, a 3-percent increase compared with the same period of 2012.

The report estimates 646 metric tons of total construction aggregates was produced and shipped for consumption in the U.S. in the third quarter of 2013, an 8-percent rise over the third quarter of 2012.

The estimated production for consumption in the first nine months of 2013 was 1.56 billion metric tons, an increase of almost 3 percent compared to the same period of 2012.

USGS estimates that Portlandh cement consumption increased by 10 percent in the third quarter of 2013 and was up 4 percent in the first 9 months of 2013 compared to the same periods of 2012.

Eight of the nine geographic divisions saw a rise in the estimated production-for-consumption of construction sand and gravel...

The report notes that estimated production-for-consumption of crushed stone in the third quarter of 2013 increased in all of the geographic divisions compared to product sold or used in the third quarter of 2012.

West North Central , the Middle Atlantic, and the Pacific divisions saw the largest increases, experiencing increases of 16 percent, 13 percent and 9 percent, respectively.

Production-for-consumption of crushed stone increased in 35 of the 46 states that were estimated. Texas, Pennsylvania, Missouri, Illinois and Ohio saw the largest increases, providing a combined total of 121 metric tons of production-for-consumption of crushed stone and representing 33 percent of the U.S. total.

Eight of the nine geographic divisions saw a rise in the estimated production-for-consumption of construction sand and gravel in the third quarter of 2013 compared to third quarter 2012 levels. The East South Central, Middle Atlantic and West South Central divisions saw the highest increases, experiencing increases of 22 percent, 16 percent and 12 percent, respectively.

Production-for-consumption of construction sand and gravel increased in 32 of the 46 States that were estimated. California, Texas, Minnesota, Michigan, and North Dakota led with the most production-for-consumption, providing a combined total of 105 metric tons and representing 38 percent of the U.S. total.

The East South Central, Middle Atlantic and West North Central divisions saw the largest increases

The estimated production-for-consumption of aggregates in the third quarter of 2013 increased in all of the nine geographic divisions compared with that sold or used in the third quarter of 2012. The East South Central, Middle Atlantic and West North Central divisions saw the largest increases, experiencing increases of 15 percent, 14 percent and 12 percent, respectively.

Production-for-consumption of aggregates increased in 35 of the 44 States that were estimated. Texas, California, Pennsylvania, Minnesota and Ohio led with the highest amount of production-for-consumption, providing a combined total of 183 metric tons and representing 28 percent of the U.S. total.

Read the entire article at:
http://www.aggman.com/u-s-aggregates-production-rises-in-q3-2013/?utm_source=daily&utm_medium=email&utm_content=12-11-2013&utm_campaign=AM&ust_id=4ccdeb7bdc&*

Financial Focus

U.S. economy growth revised higher, economy on firmer footing

The U.S. economy grew at its fastest pace in almost two years in the third quarter, the government said on December 20, 2013 as it revised its estimates of business and consumer spending higher.

The broad revisions hinted at some underlying strength, which could help the economy better absorb the blow from an anticipated cutback in inventory accumulation this quarter.

The Federal Reserve on December 18, 2013 gave the economy a vote of confidence, announcing it would reduce its $85 billion monthly bond purchases by $10 billion starting in January.

Gross domestic product grew at a 4.1 percent annual rate instead of the 3.6 percent pace reported earlier this month, the Commerce Department said in its third estimate.

That was the quickest pace since the fourth quarter of 2011 and an acceleration from the April-June quarter's a 2.5 percent.

Economists had expected third-quarter GDP growth would be unrevised at a 3.6 percent rate.

"This is a fairly solid report, said Ryan Sweet, senior economist at Moody's Analytics in West Chester, Pennsylvania, adding that the mix of factors in the report was more positive than expected.

"At first it was an inventory story. Now with this mix, it is favorable for the fourth quarter and into early 2014. The pullback in inventories seems less threatening and will be fairly gradual."

U.S. stock index futures rose after the data. The dollar hit a five-year high against the yen, while U.S. Treasury debt prices were little changed.

Federal Reserve announced it would reduce its $85 billion monthly bond purchases by $10 billion starting in January

Consumer spending grew at a 1.8 percent rate in the second quarter

Business spending increased at a 4.8 percent rate instead of the 3.5 percent pace reported early this month. That reflected stronger growth in intellectual property products such as software, research and development, and entertainment.

There were also upward revisions to consumption. Consumer spending, which accounts for more than two-thirds of U.S. economic activity, was raised 0.6 percentage point to a 2.0 percent rate. The revisions reflected higher spending on both goods and services than previously estimated.

Revisions to spending on gasoline and other energy goods accounted for part of the upward revision to spending on goods, while spending on healthcare and other services also was higher than previously estimated.

Consumer spending grew at a 1.8 percent rate in the second quarter.

Business spending on equipment was revised up to a 0.2 percent pace. It had previously been reported as being flat.

That left domestic demand rising at a 2.3 percent rate, instead of the 1.8 percent pace the government reported earlier this month.

Export growth was also raised up by two tenths of a percentage point to a 3.9 percent pace.

Spending on residential construction was lowered by 2.7 percentage points to a 10.3 percent rate in the third quarter.

A large build-up of stocks still accounted for much of the increase in GDP growth in the July-September quarter. That has left economists anticipating a slowdown in the pace of inventory accumulation, which would hurt fourth-quarter growth.

Businesses accumulated $115.7 billion worth of inventories. That compared to prior estimates of $116.5 billion.

So far there is little sign that businesses are pulling back, with stocks at retailers, auto dealerships and wholesalers increasing solidly in October.

Some economists say the inventory drag on GDP could be delayed until the first quarter of 2014, while others believe the third-quarter stock pile-up was probably planned.

An inventory drag in the first three months of 2014 is likely to be offset by some loosening of fiscal policy.

Learn more at:
http://www.reuters.com/article/2013/12/20/us-economy-gdp-idUSBRE9BJ0P520131220?feedType=RSS&feedName=businessNews

The Edge

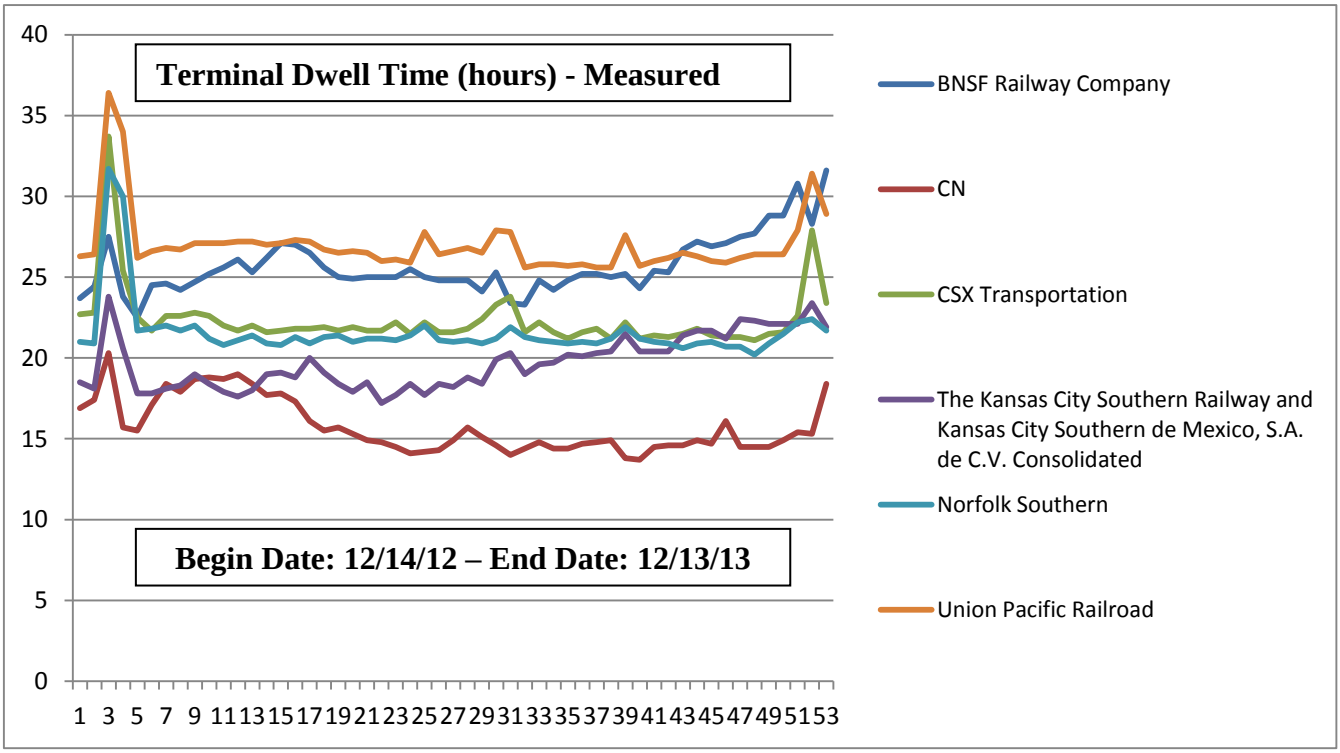
Happy New Year and Welcome to 2014!

As we welcome in the New Year, we continue to see freight railroad companies meeting their earnings goals by concentrating on price increases and cost cutting measures which is supported somewhat by a rail freight mix change. At the same time, we also continue to visit with leaders in the logistics department of many various companies across all types of industry. As we start 2014, we find it interesting to survey freight shippers to benchmark their successes as well as the challenges they are facing in moving freight by rail and we consistently receive feedback addressing the most common challenges: 1) service and 2) price increases.

The feedback we've recently received supports rail service became quite poor in the fourth quarter of 2013 and shippers are worried about the impact it will have on their shipment and logistics costs headed into the coming year. We're somewhat surprised with their concern in that it's generally rail freight pricing that leads in shipper concerns.

To explain this issue, we took a look at the broader picture of rail freight mix which shows that coal rail shipments comprise 39.5% of the total carloads shipped. While high, there's been a reduction in coal shipments (2013 versus 2012) of 4.5%. The anticipated reduction in coal didn't catch the railroads flat footed on managing cost components. From an operating sense, the railroad is focused on two big cost segments: 1) locomotive power and 2) operating personnel (train crews and maintenance of way). Coal unit train traffic is a big consumer of both. Railroads have done a great job of leasing seasonal power demands or engaging in power by the hour agreements that let them more quickly move power in and out of service. The management of operating personnel is an art form and involves layoffs, furloughs and call-back rights that sometimes leave the railroads without crews when they anticipated having crews available.

This push for operating ratio performance (cost containment measures) and change in mix (e.g. significant decrease in coal and increase in crude trains) has current operating performance waning.



Furthermore, we decided to see if we could determine if the current performance is any worse or better than normal for this time of year. To do so we pulled the Terminal Dwell Time which is a weekly measure in hours of train dwell per major terminal (source AAR) and charted the last 53

weeks of service (see chart below). We made some interesting extractions: 1) service in late 2012 was significantly worse over Christmas and New Year's then it is now but the drop off in performance was only for an approximately two week period and 2) service in late 2013 has been gradually getting worse since early November - some four to six weeks sooner than we experienced in 2012.

In our survey we also determined that traffic along major coal routes suffered the most and interestingly enough, this includes coal shipments. Remember that reduction in coal shipments we mentioned earlier? One would anticipate that the railroad would be pining to have that traffic moving again but we expect that the reductions made earlier in the year have set this service back.

Will service improve in 2014? If history repeats itself we can expect that it will but with the reduction in coal traffic it appears that railroads are still trying to figure out their resource allocation.

We look forward to earning your business!