# Touchbase

July 2017

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**CSX released an announcement regarding important regulatory changes for hazardous shipments**

**New HazMat Federal Regulation: emergency response phone number must be numeric only**

## Railroad & Policy Updates

On June 30, 2017 CSX released an announcement regarding important regulatory changes for hazardous shipments. The announcement is listed below for Tealinc customer benefit:

Please be advised, effective July 5, 2017, CSX Transportation (CSXT), in response to the US DOT Pipeline and Hazardous Materials Safety Administration's (PHMSA) mandated regulatory change with regard to the format of emergency response telephone numbers, will no longer accept the submission of alphanumeric emergency response telephone numbers. Any hazardous material shipment offered in transportation, must be in compliance by the offeror:

*"Per Docket No. PHMSA-2013-0225 (HM-218H) final rule, DOT is amending its Hazardous Materials Regulations to prohibit the use of alphanumeric telephone numbers and only permit numeric telephone numbers as emergency response telephone numbers. The amendment became effective July 5, 2016. However, mandatory compliance was extended until July 5, 2017."*

Per the EDI standards, if an emergency contact telephone number is provided then an emergency contact name is required. The offeror is not permitted to pass filler text (i.e. 'Not Shown', 'None Shown' or 'Unknown), 'spaces' / 'null' value, or the name of any emergency response information telephone number service provider (i.e. Chemtrec, InfoTrac, Canutec, Chemtel, SETIQ, Cenacom, 3E Company, etc.) in the PER*02 field or on ShipCSX Hazardous Material details page. The emergency response information phone number service provider in the PER*02 or in ShipCSX should contain the person (offeror) identified by name or contract number that has the contractual agreement with this emergency response information telephone number service provider for compliance with requirements in 49 CFR part 172.201(d). When identified by contract number the literal "CONTRACT:" or "CONT:" should be shown preceding the contract number. Additionally, the PER*04 should contain the numeric telephone number and may contain these punctuations marks: open and closed parentheses '( )', dashes '-', periods '.' and plus signs '+' as well as OPT or EXT where appropriate. Please see below examples for proper formatting.

**EDI Rail Billing**

All EDI 404/858 rail billing instructions transmitted to CSXT with alpha characters in the emergency response telephone number section (PER*04 field within the hazardous loop - with the exception of EXT or OPT) or if an emergency service provider name is passed in the PER*02 billing will be rejected beginning July 5th. Please refer to the example below for valid format:

| Invalid: Alpha characters included in PER04 field | Valid: Alpha characters NOT included in PER04 field |
|---|---|
| LH1*BX*1*UN1993**4910185*KG*15***II | LH1*BX*1*UN1993**4910185*KG*15***II |
| LH2*3*P | LH2*3*P |
| LH3*FLAMMABLE LIQUIDS,N.O.S.*D*NOS | LH3*FLAMMABLE LIQUIDS,N.O.S.*D*NOS |
| LFH*TEC*(CONTAINS PETROLEUM) | LFH*TEC*(CONTAINS PETROLEUM) |
| PER*HM***CHEMTREC*TE*800CHEMTREC CCN#1234** | PER*HM***ACME CHEMICAL CONT:1234*TE*800-424-9300** |

Learn more at:
**www.csx.com**

## Mechanical Brief with Steve Christian

**What ever happened to quality?**

First, let me share my background. Over many, many years, I worked in the Car Department of two Class I Railroads from Laborer to Shop Superintendent and everything in between. All during those years there was a real sense of pride in working for a railroad. The more experienced employees would ride the younger ones when their work quality or quantity slipped. Between the two, quality was always paramount. The last thing you wanted was a car rejected for loading by a shipper that you had just worked on. Bad news travels fast and in short order you would be getting your butt chewed.

Later, I started and managed several contract railcar shops and brought along with me what I had learned at the railroads about work quality and quantity (aka production). I tried to instill in my subordinates that same sense of pride in a job well done.

**Early on in the process, before Tealinc got involved, the third party leasing company inspector and our customer took issue with outlet gate condition and interior and exterior cleanliness. The railroad back shop assured both parties that these issues would be addressed on these cars and all future cars**

Recently, a customer of ours decided to lease a group of covered hoppers that a Class I Railroad was returning to a third party leasing company *(side note: if Tealinc doesn't have a supply of the railcars our customers need, we help support our customers in working with third party leasing companies who can provide the equipment we don't have available*). It was decided that the cars would accumulate at the Class I Railroad's back shop and undergo "Lease Termination" inspection and repair prior to going into service with our customer. Early on in the process, before Tealinc got involved, the third party leasing company inspector and our customer took issue with outlet gate condition and interior and exterior cleanliness. The railroad back shop assured both parties that these issues would be addressed on these cars and all future cars. As such, the production and shipment of these cars kept going.

Once the cars were completed at the railroad back shop, and unfortunately without follow up inspection by our customer, the cars were released by the railroad and delivered to our customers' initial loading site. Upon delivery, the cars were inspected by our customers' operating crew and it was evident that the railroad had not made the necessary repairs to the outlet gate condition nor had they made interior and exterior cleanliness the priority it should be and the same problems persisted. After other inspections at the back shop and at various field locations, it became obvious to our customer and the leasing company that they were butting their heads against a Class I Railroad wall. This is when Tealinc was hired to become involved.

**A QA sticker should have been a sign to me that the car had passed inspections and should be in a condition ready for service. During inspection, I quickly noticed that was not the case.**

I looked at several of the cars that had been received at two loading points. The first thing that I noticed was that each car had a prominent Quality Assurance sticker on each side of the car that was signed by the QA Inspector at the railroad back shop. The dictionary defines Quality Assurance as “the maintenance of a desired level of quality in a service or product, especially by means of attention to every stage of the process of delivery or production”. In case you’re not familiar with QA from a shop perspective, the QA sticker is placed after work has been completed and a quality assurance inspector inspects the car for work quality prior to the car being released and pulled from the shop. It should have been a sign to me that the car had passed inspections and should be in a condition ready for service. During inspection, I quickly noticed that was not the case. All of the outlet gates were bolt on gravity/pneumatic gates. Some of the bolts were loose. Some of them were missing. Many of the outlet gate frames were bent. The gaps between the gate frame and the gasket was filled by caulking. Gates were out of time. The slide locking mechanism was bent and often inoperable. The slides and plenums were filthy with steel grit, welding smoke grime and mud.

I successfully opened most of the hatch covers but found soot and grime on the underside of the roof. I also saw muddy footprints on the partition ladders and the hopper chute sheets. The IRECO hatch cover locks were hard to operate due to epoxy lining overspray that covered the locks… the list goes on and on. *Did I mention that these cars were going into food grade service?* This condition is completely unacceptable and I had flashbacks of my days at the shop… someone should get their butt chewed!

To make a long story short, after multiple conversations with the railroad back shop and work locating shops that could accommodate the extra work, all of the cars are now going to two separate contract shops to get the remedial work completed. I wish I could say this was an isolated incident but it is not. I have heard that this is standard operating procedure for this back shop - they screw things up and they pay contract shops to bail them out. There is always good news though. Persistence pays off and with our help and direction, the cars are finally trickling into service months after they left the Class I Railroad back shop.

This back shop has a multitude of AAR Technical Certifications and has M-1003 Quality Assurance Certification. When looking for a qualified shop to do your work, these are all things you look for; however, in spite of this, these cars passed the railroad’s quality assurance program as evidenced by the QA inspector’s stickers on the cars but should not have.

And so I pose this important question… Does “Quality” mean having the right paperwork in the files or does “Quality” mean producing a Quality product like in the old days?

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As always, Tealinc stands ready to assist you in your quest to find true “Quality.” Whether you’re looking for a reliable and dependable shop reference, assistance identifying the right car type to meet your product transportation needs or you need help inspecting cars to ensure the right “Quality” is met, call on us. We’re confident that you’ll be glad you did.

**As always, Tealinc stands ready to assist you in your quest to find true “Quality”**

*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 5, 2017] reported U.S. rail traffic for the week ending July 1, 2017, as well as volumes for June 2017.

**U.S. railroad carloads up 4.4 percent June 2017 compared to June 2016**

U.S. railroads originated 1,065,976 carloads in June 2017, up 4.4 percent, or 45,174 carloads, from June 2016. U.S. railroads also originated 1,113,575 containers and trailers in June 2017, up 4.6 percent, or 49,425 units, from the same month last year. Combined U.S. carload and intermodal originations in June 2017 were 2,179,551, up 4.5 percent, or 94,599 carloads and intermodal units, from June 2016.

**June carload increases included coal (up 13.2 percent); crushed stone, gravel, and sand, up 18.5 percent; and chemicals, up 4.1 percent**

In June 2017, eight of the 20 carload commodity categories tracked by the AAR each month saw carload gains compared with June 2016. These included: coal, up 40,333 carloads or 13.2 percent; crushed stone, gravel, and sand, up 16,747 carloads or 18.5 percent; and chemicals, up 4,888 carloads or 4.1 percent. Commodities that saw declines in June 2017 from June 2016 included motor vehicles and parts, down 7,168 carloads or 9.5 percent; petroleum & petroleum products, down 6,724 carloads or 15.2 percent; and metallic ores, down 2,025 carloads or 7.7 percent.

"Rail traffic indicators of the economy remain mixed. While some commodity groups, such as intermodal, chemicals, and crushed stone and sand (driven heavily by frac sand) set new all-time first half records and a few others like grain and coke set post-recession records, several other traffic categories continue to struggle," said AAR Senior Vice President John T. Gray. "All of this indicates an industrial economy that may not yet have a clear direction forward and one that continues to undergo structural change. It is a sign of the reality railroads constantly face: changing markets that are difficult to foresee and plan for."

**Carload declines June 2017 from June 2016 included motor vehicles and parts, down 9.5 percent; petroleum & petroleum products, down 15.2 percent; and metallic ores, down 7.7 percent**

Excluding coal, U.S. rail carloads were up 4,841 carloads, or 0.7 percent, in June 2017 over June 2016. Excluding coal and grain, carloads were up 3,668 carloads, or 0.6 percent, for the month.

Total U.S. carload traffic for the first six months of 2017 was 6,699,453 carloads, up 6.4 percent, or 404,078 carloads, from the same period last year; and a record 6,892,673 intermodal units, up 2.7 percent, or 179,515 containers and trailers, from last year and up 0.5 percent, or 32,614 units, over the previous record in the first half of 2015.

Total combined U.S. traffic for the first 26 weeks of 2017 was 13,592,126 carloads and intermodal units, an increase of 4.5 percent compared to last year.

Visit the AAR at:
**https://www.aar.org/newsandevents/Press-Releases/Pages/2017-07-**

## Industrial Inside

**Crushed stone shipments decrease in 1Q17**

**An estimated 261 million t of crushed stone was produced and shipped for consumption in the United States in 1Q17, a slight decrease compared with that of the same period in 2016.**

**The estimated production-for-consumption of crushed stone in 1Q17 decreased in five of the nine geographic divisions compared with that sold or used in 1Q16**

USGS has released its mineral industry survey for crushed stone, sand, and gravel in 1Q17.

An estimated 261 million t of crushed stone was produced and shipped for consumption in the United States in 1Q17, a slight decrease compared with that of the same period in 2016. The estimated annual output produced for consumption in 2016 was 1.36 billion t, a slight increase compared with that of 2015. The estimated US output of construction sand and gravel produced and shipped for consumption in 1Q17 was 165 million t, a decrease of 4% compared with that of the same period of 2016. The estimated annual output produced for consumption in 2016 was 945 million t, a slight increase compared with the annual output for 2015.

The estimated US output of construction aggregates produced and shipped for consumption in 1Q17 was 426 million t, a decrease of 3% compared with that of the same period of 2016. The estimated annual output produced for consumption in 2016 was 2.30 billion t, a slight increase compared with the annual output for 2015.

Shipments of portland and blended cement increased slightly in 1Q17, compared with 1Q16. Annual consumption increased slightly in 2016, compared with that of 2015.

The estimated production-for-consumption of crushed stone in 1Q17 decreased in five of the nine geographic divisions compared with that sold or used in 1Q16. The largest decreases in percentages were recorded in the New England, the Pacific, and the West North Central divisions. Production-for-consumption decreased in 29 of the 46 States for which estimates were made. The five leading States were, in descending order of production-for-consumption, Texas, Florida, Georgia, North Carolina, and Pennsylvania. Their combined total production-for-consumption was 95.9 million t, and represented a slight decrease compared with that in 1Q16.

The estimated production-for-consumption of construction sand and gravel in 1Q17 decreased from that of 1Q16 in six of the nine geographic divisions. The largest decreases in percentages were recorded in the West North Central, the Middle Atlantic, and the East North Central divisions. Production-for-consumption increased in 23 of the 45 States for which estimates were made. The five leading States were, in descending order of production-for-consumption, Texas, California, Arizona, Washington, and Colorado. Their combined total production-for-consumption was 61.6 million t, which was a 6% decrease compared with that in 1Q16.

The estimated production-for-consumption of construction aggregates in 1Q17 decreased in five of the nine geographic divisions compared with that sold or used in 1Q16. The largest decrease in percentage was recorded in the West North Central division. Production-for-consumption increased in 26 of the 43 States for which estimates were made. The five leading States were, in descending order of production-for-consumption, Texas, Florida, California, Georgia, and North Carolina. Their combined total production-for-consumption was 138 million t and increased by 3% when compared with that of the same period of 2016.

Read more:
[https://www.worldcement.com/the-americas/09062017/crushed-stone-shipments-decrease-in-1q17/](https://www.worldcement.com/the-americas/09062017/crushed-stone-shipments-decrease-in-1q17/)

## Financial Focus

**Fed Chair Yellen tells Congress to expect more interest rate hikes**

Federal Reserve Chair Janet Yellen told Congress on [July 12, 2017] that the central bank expects to keep raising a key interest rate at a gradual pace and also plans to start trimming its massive bond holdings this year. In her semiannual testimony on the economy, Yellen took note of a number of encouraging factors, including strong job gains and rising household wealth that she said should fuel economic growth over the next two years. She blamed a recent slowdown in inflation on temporary factors. But she says Fed officials are watching developments closely to make sure that annual price gains move back toward the Fed's 2 percent target.

Many economists believe the Fed, which has raised rates three times since December, will hike rates one more time this year.

**… and while the economy started the year with a sluggish growth rate of just 1.4 percent, it has regained momentum in recent months, helped by strong job gains, a revival of business investment and a strengthening of overseas economies**

In her prepared testimony before the House Financial Services Committee, Yellen repeated the message she has been sending all year: the economy has improved enough that it no longer needs the extraordinary support the central bank began providing in 2008 in the wake of a severe financial crisis and the deepest recession since the 1930s.

She noted that since the depths of the recession, unemployment is now down to 4.4 percent, near a 16-year low. And while the economy started the year with a sluggish growth rate of just 1.4 percent, it has regained momentum in recent months, helped by strong job gains, a revival of business investment and a strengthening of overseas economies.

But Yellen cautioned that "considerable uncertainty always attends the economic outlook." Those include whether inflation will indeed pick up, as well as questions about how much of President Donald Trump's economic program will make it through Congress. She noted that while the global economy appears stronger, "a number of our trading partners continue to confront economic challenges."

**Yellen cautioned that "considerable uncertainty always attends the economic outlook"**

"At present, I see roughly equal odds that the U.S. economy's performance will be somewhat stronger or somewhat less strong than we currently project," she said.

Yellen made no reference in her prepared remarks to what many investors see as one of the biggest unknowns at the moment: whether Trump will ask Yellen to remain as Fed leader when her current term ends next February. Yellen so far has deflected questions about whether she would accept a second four-term term as chairman if Trump asked her to remain. She also did not mention the potential impact of Trump's other Fed nominations on central bank interest rate decisions and its approach to its other job, regulating the nation's largest banks.

During last year's presidential campaign, Trump was critical of the central bank for its low-rate policies, which he said were helping Democrats, and for its efforts to enact tougher regulations on banks in response to the

2008 financial crisis.

On [July 10, 2017], the administration announced that it had chosen Randal Quarles, a Treasury Department official under two Republican presidents, to serve as vice chairman for supervision, the Fed's top bank regulatory post.

**The Fed slashed its key policy rate to a record low near zero in December 2008 to combat the worst economic downturn since the 1930s — and kept it there for seven years until nudging it up modestly in December 2015**

Including the post Quarles would fill, the Fed has three vacancies on the seven-member board. All of Trump's nominations will require Senate approval.

The Fed slashed its key policy rate to a record low near zero in December 2008 to combat the worst economic downturn since the 1930s — and kept it there for seven years until nudging it up modestly in December 2015. It then left the rate unchanged for another year until raising it again in December of last year, followed by increases in March and June this year. Even so, the rate remains in a still-low range between 1 percent and 1.25 percent.

At its June meeting, the Fed signaled that it expected to begin shrinking its $4.5 trillion balance sheet later this year, a step that could put gradual upward pressure on longer-term rates for such items as home mortgages.

In her testimony [July 12, 2017], Yellen repeated the Fed's plans to increase the level of bonds that will be sold off each month at a gradual rate to give markets time to adjust. At its June meeting, the Fed announced that it planned to begin reducing its holdings by $10 billion per month.

**The Fed intends to continue to manage interest rates through its primary policy tool, the federal funds rate. But it would be prepared to resume bond purchases "if a material deterioration in the economic outlook" were to occur, Yellen said**

The Fed's holdings have surged five-fold since 2008, ballooning in size as the Fed bought Treasury and mortgage bonds. By taking the bonds off the market, the Fed helped to encourage lower long-term interest rates that made it less expensive for consumers and businesses to borrow. One of the goals of gradually unwinding the balance sheet would be to not disrupt broader economic growth despite the possibility of rising long-term rates.

The Fed intends to continue to manage interest rates through its primary policy tool, the federal funds rate. But it would be prepared to resume bond purchases "if a material deterioration in the economic outlook" were to occur, she said.

Learn more at:
**http://www.dailynews.com/business/20170712/fed-chair-yellen-tells-congress-to-expect-more-interest-rate-hikes**

**The Edge**
***… with Darell Luther***

**Railcar Loading Trends**
Happy July 4th! And thank you to all the service men and women who help keep our country safe and free.

Rail traffic continues to show fundamental volume growth indicative of a healthier economy and continued faith that the underlying fundamentals of the economy are on solid footing. May 2017 railcar loadings, the most current data available for rail carload statistics, shows total originated rail carloads up 8.4%. The primary drivers of this business increase are coal being up 19.6% at 78,334 railcar loads, grain up 24.5% at 22,963 railcar loads, crushed stone, sand and gravel up 15.3% or 17,110 railcar loads.

Crude oil railcar originations continue to lead the decline in traffic on a percentage basis. Subject to strong competition from pipelines and a stern regulatory environment including an entire fleet of railcars that are no longer available to load because of these regulations crude oil shipments are down significantly. Consider that crude oil originations in Q12016 were 63,261 railcar loads and just a year later in Q12017 they are 40,235 and trending lower.

A better handle on the more recent railcar loading strength is depicted in the table below.

**Total US Carloads – past six months**

| YTD | Dec 2016 | Jan 2017 | Feb 2017 | Mar 2017 | Apr 2017 | May 2017 |
|---|---|---|---|---|---|---|
| Avg per Week | 243,411 | 249,143 | 261,010 | 256,698 | 255,825 | 257,215 |
| % chg same month prior year | 2.8% | 2.9% | 6.7% | 7.3% | 8.4% | 8.4% |

Although the recent growth is solid and steady one needs to look at the overall annual picture from the last several years to get a feel for the cyclical nature of the business.

**Total US Carloads – past six years**

| YTD | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|
| US Carloads | 6,184,999 | 6,081,588 | 6,271,514 | 6,112,058 | 5,274,573 | 5,633,417 |

There appeared to be some consistency to 2012 through 2015 and in 2016 the bottom fell out of the coal fired power industry, the country was fraught with indecision due to an election and the oil drilling industry was working on surviving low crude oil prices. In 2017 there appears to be some stability to the coal market (note coal is leading the railcar load increases), the election is over and crude oil prices appear to have stabilized, albeit crude oil rail transportation continues to face strong competition in modes of transport.

**Mechanical Trends on Railroads**

On a mechanical note, a trend you should be aware of is that on “some” Class I Railroads and a very few Shortline Railroads we’re seeing more derailment repairs being classified as owners responsibility. What this does is shift the repair responsibility to the railcar owner versus having it remain with the responsible railroad when in reality, if a railcar is derailed or damaged by a railroad, the responsibility for that derailment and / or damage remains with the handling railroad.

For example, we had one railcar that was bad ordered at a major hump yard in the eastern US. The railcar set for two days with no reporting other than it had arrived at the yard.  Being carload business and at a major hump yard we took no action to check on the railcar since two days at a major yard isn't excessive.  On the third day a DDCT was reported on the railcar asking for disposition.  The railcars is a bulkhead flat railcar and an entire bulkhead was excessively damaged by the load tilting at a severe angle off the railcar. This was not small damage, this cracked the centersill and destroyed the railcar beyond repair. The railroad did not issue a JIC and they did not acknowledge the incident and instead only requested disposition to a repair shop. Our further investigation determined the severe and unrepairable damage. We've worked extensively to understand the damage that was caused, presented options to our lessee to move forward and it's pretty frustrating for both the lessee and for Tealinc as the railcar owner. This is an asset that can no longer be utilized.

In another example we had a gondola railcar arrive at a mid-western US yard and the trace showed the arrival at the yard.  It set for one day and a DDCT was issued on the railcar siting a broken coupler, broken axle, damaged yoke and a whole host of items all on the A end of the railcar.  It becomes intuitive that if the railcar truly was bad ordered it would have to of happened before the yard arrival. However even a remote office person can figure out that with all that damage it certainly would not have been able to physically move to the yard in the first place.  So why all the damage at a pretty simple flat switch yard?  Derailment?  We think so and are still negotiating this one as well.

As a railcar owner or lessee the lesson here is to manage all of your data so you understand what's going on with your equipment while it's in transit and recognize when there is a problem that requires your full and educated attention. We stand ready to assist you!

*We look forward to earning your business!*