Tealinc

Touchbase

JUNE 2016

In This Issue

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

Visit us at:
www.tealinc.com

Railroad & Policy Updates

STB proposing revised arbitration procedures

The Surface Transportation Board is proposing to amend existing procedures for the arbitration of disputes before the Board to make those procedures conform to statutory requirements of the Surface Transportation Reauthorization Act of 2015.

"The Board's existing regulations governing the use of arbitration are generally consistent with the requirements of the STB Reauthorization Act," said STB spokesperson Dennis Watson. "However, the Board is proposing modifications to 49 C.F.R. §§ 1108 and 1115.8, and other minor clarifications."

The most significant proposed changes involve:

- Addition of rate disputes to the list of matters eligible for arbitration.
- Modification of arbitration procedures, including the process for initiating arbitration and time frames.
- Arbitration commencement procedures that allow parties to use arbitration even if a dispute is not pending before the Board.
- Replacing the $200,000 cap on damages with a $2 million limit for practice disputes (including demurrage, accessorial charges and misrouting/mishandling railcars, among other issues) and a $25 million limit for rate disputes.
- Establishment of a process for creating and maintaining a roster of arbitrators, procedures for selecting arbitrators, and standards for qualifications to become an arbitrator.
- Comments regarding the proposed rules proposed are due June 13, 2016. Replies are due July 1, 2016.

"We appreciate Congress' attention to improving our arbitration procedures, and we hope that the changes being proposed will lead to greater use of arbitration as an alternative to litigation before the agency," noted STB Chairman Daniel R. Elliott III.

The Board's proposal in Revisions to Arbitration Procedures, EP 730, may be viewed and downloaded by following the link below.

Read the entire article:
http://www.railwayage.com/index.php/regulatory/stb-proposing-revised-arbitration-procedures.html?channel=40

Mechanical Brief with Steve Christian

Investing in your future? Don't forget the track!

I was just at a plant that is undergoing some exciting growth. There is nothing better for employee morale than seeing your company investing in its future.   However, the one element of plant growth that usually is given limited or no thought is the effect that growth will have on track requirements.

I would recommend that every railroad shipper/unloader analyze their track infrastructure and determine if it is sufficient to handle their present and future needs.

If your analysis shows that you have been living with high demurrage bills and/or you seem to be running in semi-crisis mode whenever the railroad picks up or delivers cars, you should consider making changes to your track capacity and layout

Freight carload

Gone are the days when the railroads will supplement your plant track capacity by holding cars on railroad property without charging an "arm and a leg" to do so. In fact it's more like both arms and both legs these days.

As is typical in the railroad industry these days, the Class I railroads look to shift the responsibility to the customers to have the track infrastructure in place on the customer's property to handle any influx of railcars that might occur. If you have not sensed it yet, they are doing this by tightening up OT5 requirements for track space for private cars and jacking up demurrage rates.

I would recommend that every railroad shipper/unloader analyze their track infrastructure and determine if it is sufficient to handle their present and future needs. This analysis should include things like:

- If the plant has shut down for whatever reason, do we have enough room to hold all of our privately marked cars? If not, do we have an off-site storage facility available to handle those cars?
- How much are your railroad demurrage bills?
- How much do you have to handle your cars to get them loaded/unloaded? Would a different track configuration make it more efficient?
- Can the railroad always deliver cars whenever they show up at your gate?
- When the railroad delivers cars, does that slow down or halt your operations?
- Do you have to coordinate the pickup or delivery of cars by the railroad so that you don't get your switch crew trapped (railroad lingo is "frogged in")?

If your analysis shows that you have been living with high demurrage bills and/or you seem to be running in semi-crisis mode whenever the railroad picks up or delivers cars, you should consider making changes to your track capacity and layout. Just adding track is not always the answer. You need to define your issues and develop a plan to address them. That plan could involve changes in track condition, track layout, switching procedures, loading/unloading practices and equipment among many others. Don't just live with your problems, solve them.

As always, Tealinc stands ready to employ our many years of experience and 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) [May 4, 2016] reported weekly U.S. rail traffic, as well as volumes for April 2016.

traffic down 16.1 percent in April 2016

Carload traffic in April totaled 944,339 carloads, down 16.1 percent or 180,598 from April 2015. U.S. railroads also originated 1,028,460 containers and trailers in April 2016, down 7.5 percent or 83,729 units from the same month last year. For April 2016, combined U.S. carload and intermodal originations were 1,972,829, down 11.8 percent or 264,327 carloads and intermodal units from April 2015.

In April 2016, five of the 20 carload commodity categories tracked by the AAR each month saw carload gains

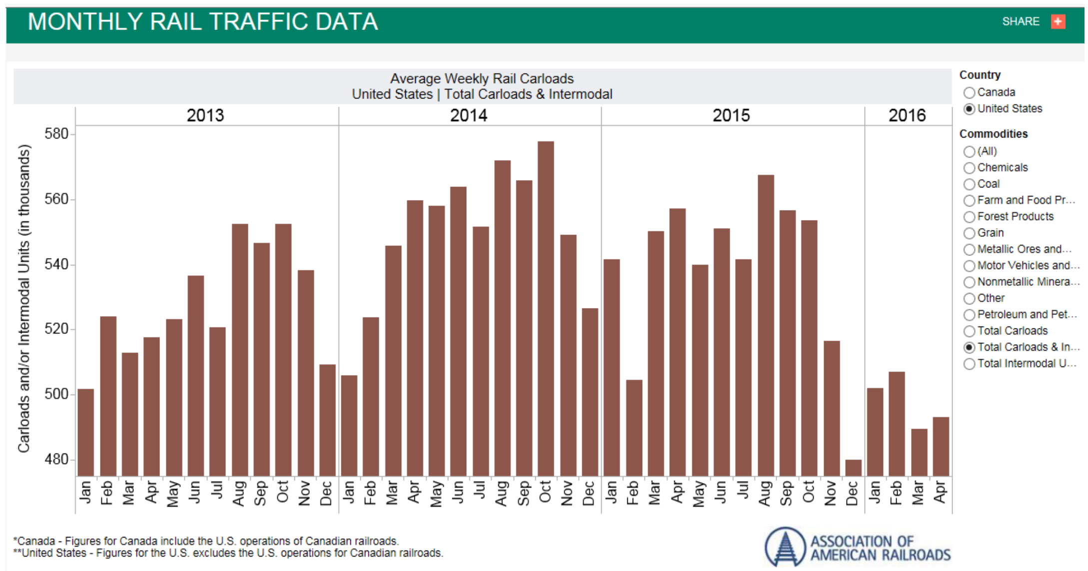

Chart derived from: **https://www.aar.org/Pages/Freight-Rail-Traffic-Data.aspx#monthlyrailtraffic**

Miscellaneous carloads, coke and chemicals up; coal, petroleum and petroleum products, and grain mill products down in April 2016

In April 2016, five of the 20 carload commodity categories tracked by the AAR each month saw carload gains compared with April 2015. These included: miscellaneous carloads, up 25 percent or 4,743 carloads; coke, up 16.1 percent or 2.354 carloads; and chemicals, up 1.5 percent or 1,909 carloads. Commodities that saw declines in April 2016 from April 2015 included: coal, down 39.7 percent or 160,624 carloads; petroleum and petroleum products, down 25.1 percent or 15,122 carloads; and grain mill products, down 7.1 percent or 2,760 carloads.

Excluding coal, carloads were down 2.8 percent or 19,974 carloads from April 2015.

Total U.S. carload traffic for the first 17 weeks of 2016 was 4,087,620 carloads, down 14.3 percent or 83,729 carloads, while intermodal containers and trailers were 4,368,132 units, down 0.8 percent or 33,771 containers and trailers when compared to the same period in 2015. For the first four months of 2016, total rail traffic volume in the United States was 8,455,752 carloads and intermodal units, down 7.8 percent or 715,985 carloads and intermodal units from the same point last year.

"We expect non-coal carloads to strengthen when the economy gets stronger, and we think intermodal weakness in April is probably at least partly a function of high business

"Rail coal traffic continues to suffer due to low natural gas prices and high coal stockpiles at power plants. Coal accounted for just 26 percent of non-intermodal rail traffic for U.S. railroads in April 2016, down from 36 percent in April 2015 and 45 percent as recently as late 2011," said AAR Senior Vice President of Policy and Economics John T. Gray. "We expect non-coal carloads to strengthen when the economy gets stronger, and we think intermodal weakness in April is probably at least partly a function of high business inventories that need to be drawn down before new orders,

inventories that need to be drawn down before new orders, and thus new shipments, are made"

and thus new shipments, are made."

Read more at: **https://www.aar.org/newsandevents/Press-Releases/Pages/2016-05-04-railtraffic.aspx**

Industrial Inside

USGS: Construction aggregates production increases

The estimated U.S. output of construction aggregates produced and shipped for consumption in the first quarter of 2016 was 443 million metric tons, an increase of 16 percent compared with that of the first quarter of 2015, the U.S. Geological Survey (USGS) reports. The estimated annual output produced for consumption in 2015 was 2.27 billion metric tons, an increase of 6 percent compared to 2014.

The estimated production-for-consumption of construction aggregates in the first quarter of 2016 increased in seven of the nine geographic divisions compared with that sold or used in the first quarter of 2015, with the largest increases in percentages recorded in New England, the Middle Atlantic and the South Atlantic divisions. In addition, production-for-consumption increased in 32 of the 43 states that were estimated, with the five leading states being Texas, California, Florida, Missouri and Georgia. Their combined total production-for-consumption was 145 million metric tons, an increase of 11 percent compared to the first quarter of 2015.

The estimated U.S. output of construction aggregates produced and shipped for consumption in the first quarter of 2016 increased 16 percent

An estimated 270 million metric tons of crushed stone was produced and shipped for consumption in the United States in the first quarter of 2016, an increase of 21 percent compared to the first quarter of 2015. According to USGS, the estimated annual output produced for consumption in 2015 was 1.33 billion metric tons, an increase of 7 percent compared to 2014.

The estimated production-for-consumption of crushed stone in the first quarter of 2016 increased in all nine of the geographic divisions compared with that sold or used in the first quarter of 2015. The largest increases in percentages were recorded in the New England and South Atlantic divisions, and production-for-consumption increased in 37 of the 46 states that were estimated. The leading states were Texas, Florida, Missouri, Georgia and Pennsylvania.

Finally, the estimated U.S. output of construction sand and gravel produced and shipped for consumption in the first quarter of 2016 was 173 million metric tons, an increase of 10 percent compared to the same period in 2015. According to USGS, the estimated annual output produced for consumption in 2015 was 937 million metric tons, an increase of 4 percent compared with the annual output for 2014.

The estimated production-for-consumption of construction sand and gravel in the first quarter of 2016 increased from the first quarter levels in

The estimated production-for-consumption of construction sand and gravel in the first quarter of 2016 increased from the first quarter levels in 2015 in seven of the nine geographic divisions, with the largest increases recorded in the New England and Middle Atlantic divisions. Production-for-consumption increased in 31 of the 45 states that were estimated, with the five leading states being Texas, California, Washington, Arizona and Colorado. Their combined total production-for-consumption was 66 million

2015 in seven of the nine geographic divisions, with the largest increases recorded in the New England and Middle Atlantic divisions

metric tons, which was about equal to the first quarter of 2015, USGS reports.

According to USGS, the quarterly sample survey generates production-for-consumption estimates based on information reported voluntarily by a limited number of producing companies.

Read the entire article at:
http://www.pitandquarry.com/usgs-construction-aggregates-production-increases/

Financial Focus

Yellen: Rate hike probably appropriate in the coming months

Federal Reserve Chair Janet Yellen said [May 27, 2016] an interest rate hike is "probably" appropriate in the coming months if economic data improve.

"It's appropriate, and I've said this in the past, I think for the Fed to gradually and cautiously increase our overnight interest rate over time and probably in the coming months, such a move would be appropriate," she said in response to a question at Harvard's Radcliffe Institute for Advanced Study.

Her remarks comes as colleagues on the Fed's policymaking committee have pointed to an increase in the federal funds rate target sooner rather than later. Yellen has expressed caution this year on rates, as inflation lags below the Fed's 2 percent target and global risks persist.

"It's appropriate, and I've said this in the past, I think for the Fed to gradually and cautiously increase our overnight interest rate over time and probably in the coming months, such a move would be appropriate

"The economy is continuing to improve," Yellen said, adding that she sees growth picking up after a sluggish first quarter. Yellen added that oil prices and the dollar are "roughly stabilizing," which would help to push inflation toward the Fed's goal.

The Fed's policymaking committee meets on June 14 and 15. Markets priced in a roughly 28 percent chance of a hike in June and 57 percent in July before Yellen spoke, according to the CME Group. Those chances rose to 34 and 62 percent for June and July, respectively, after her comments.

The Federal Open Market Committee's April meeting minutes released [in May] showed most policymakers would support a hike in June if economic data improved as expected.

On [May 26, 2016], FOMC voters continued to hint a hike may come in the near future. Fed Governor Jerome Powell said an interest rate hike could be appropriate "fairly soon," adding that he supports gradual increases if data underpin forecasts for an improving economy.

Earlier [May 26, 2016], St. Louis Fed President James Bullard told reporters he believes markets "read the minutes correctly" when they priced a higher chance of a hike.

Yellen on [May 27, 2016] said the Fed needed to avoid raising rates too quickly, as it could cause a slowdown.

Yellen: U.S. economy has made "a great deal of progress" in the "slow recovery" since the global financial crisis

"If we were to raise interest rates too steeply and we were to trigger a downturn or contribute to a downturn, we have limited scope for responding, and it is an important reason for caution," she said.

Aside from her comments on rates, Yellen gave a broader assessment of the U.S. economy. She said it has made "a great deal of progress" in the "slow recovery" since the global financial crisis.

Yellen highlighted improvement in the labor market, saying it has nearly reached a point that most economists would associate with full employment. However, she outlined out some areas of weakness, including wage and productivity growth.

One widely followed market watcher did not think Yellen's comments necessarily meant the Fed will hike in June. DoubleLine Capital's Jeffrey Gundlach said Yellen's remark "doesn't suggest" a hike in June, according to Reuters.

Learn more at:
http://www.cnbc.com/2016/05/27/yellen-rate-hike-probably-appropriate-in-the-coming-months.html

The Edge
… with Darell Luther

"It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the epoch of belief, it was the epoch of incredulity, it was the season of Light, it was the season of Darkness, it was the spring of hope, it was the winter of despair, we had everything before us, we had nothing before us, ...” Charles Dickens – A Tale of Two Cities

A much used and appropriate quote for the times for those of us in the rail transportation arena. Rail transportation tends to be a lead economic indicator for the economy as a whole. When one does an in-depth rail transportation review and tries to correlate it to the economy you’ll find very confusing signals.

The best of times. If you’re still a surviving shipper after the prolonged economic stagnation you’ll find plenty of capacity, train speed, better handling and resources available than ever. If you’re looking for speed for consumer goods generally handled by ships, intermodal trains and local truck delivery there’s almost seamless transportation available from Asia to your store. And interest rates are still relatively low for capital investments. The Prime Rate is at 3.5%. A great time, financially, to make those capital and operations investments… if only it wasn’t for the worst of times! If you run private equipment your railcars are probably making several more trips per month than originally planned making them a good investment and you a star for being so foresighted. You may even have a few extra cars to turn back, sell, use for storage or extra growth capacity.

The worst of times. Despite the fact that you can get your products to market quicker the rail transportation expense hasn’t kept pace with the downward consumer price pressure you’re likely seeing. If you’re a bulk shipper rail rates may have adjusted slightly for areas where they’ve been out of kilter with the market but overall they’re still keeping steady at 3-5% increases year over year. It likely costs you more to ship products that are worth less!

The age of wisdom. Now’s the time to review your fundamental processes and be sure they’re still valid and in place. Such things as fleet sizing, storage and track considerations, long term planning for long term success and reviewing interface areas with the railroad are really important. There's never a better time to lease railcars. Most all equipment prices are very competitive for good equipment. If you have extra track needs for your shipping or receiving location it would be a great idea to bid it out as well. Keep in mind that the railroads have taken a few billion dollars out of their track budgets and the railroad contractors will likely appreciate additional work to fill the void. In addition scrap prices albeit up slightly are still low so materials should be competitively priced as well. And don't forget to manage the railroad interfaces diligently. With the extra velocity, and in most railcar types surplus equipment, railcars are getting delivered faster or our tending to bunch up more so if you can't accept them or don't plan accordingly demurrage bills can wrack up quickly. It's also a good idea to be sure any OT-5 applications are current.

The age of foolishness. Planning not to succeed long term is probably the most foolish thing a company can do. Forecasts for business seem to track the current trends. If it's bad the situational outlook is that it's never going to get any better. If it's good the outlook seems to be it's never going to get any worse. Most of us live in cyclical businesses. Plan on the cycles!
To plan for these cycles consider short and long term mixes to your modes of transportation (truck, rail, barge, and pipeline) and the resources necessary to deliver or receive your product. Also don't forget to constantly manage the details. Demurrage, maintenance bills and non-compliant costs with transportation related carriers are ever present and can sneak up on you if not diligently managed.

We look forward to earning your business!