



Tealinc Touchbase Tidbits

with Darell Luther, CEO of Tealinc, Ltd.

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Railing On.....

On May 11, we took our daughter to the airport for her trip back to Los Angeles to cinema makeup school. The school is cautiously optimistic that they'll reopen in a couple of weeks. Cinema makeup is hands-on so there's no social distancing here. The airport in Billings, Montana was eerily quiet, with just a handful of travelers going through security. Later, our daughter told us the planes were relatively full, though the airlines were using 727s versus the normal 737s.

That's a per plane capacity reduction of about 15%. And that doesn't consider the number of flight options that have been removed entirely. In the Billings-to-LA market, about 30% of flights have been taken off the board.

Businesses are struggling to comply with directives or figure out how to get back to business as (un)usual. In the rail industry, we've had a COVID-type impact for the past several years; it just came in the form of the war on coal-based electricity, and, more recently, the focus on the oversupply of

oil between Russia and OPEC—which, by the way, appears to be generating additional demand with the potentially rising cost of natural gas (due to the reduction in oil rig drilling in the Permian and Bakken oil fields). Natural gas is a byproduct of oil drilling.

Ironically, the United States remains in the forefront in economic stability and the U.S. dollar is strong compared to all other currencies. That means just about all commodities on an international scale cost more to buy from the United States. Food-based commodities (e.g. grains and meats) get shipped across any producing country by those countries that need food (think China, Japan, Asia, India, and some European countries). Export grain is down significantly, which creates another negative impact on rail carload growth.

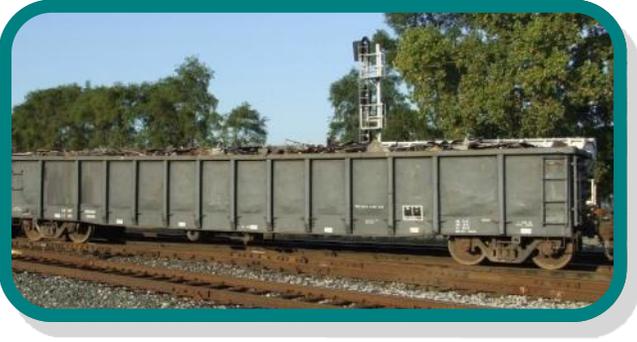
Despite the times and markets being in such turbulence, when one looks back at history, the rail industry has survived many periods of recession—and in the long run has grown substantially from them. Remain positive and mark 2020 in your calendars as a time we never want to repeat.



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Electricity Update

According to the [US Energy Information Administration](#), the exponential rise in natural gas replacement of coal and the continued growth of wind energy have combined to produce the lowest coal-fired electricity generation since 1976. Even though coal prices have dropped precipitously over the past several years, it must be at around 30% cheaper on a delivered basis than natural gas to account for generating conversion and emissions controls.

STB Demurrage Rules

On May 6, 2020, the Surface Transportation Board (STB) issued a final ruling on demurrage rules. The new document ([Docket Number EP757](#)) addresses such things as free time, bunching, accessorial charges, overlapping charges, invoicing and dispute resolution, notice of major tariff changes, demurrage billing to shippers instead of warehousemen, and credits. The STB's approach is to increase transparency and reasonableness in the issuance of demurrage bills. It's not a concrete ruling, but a step in the right direction for shippers. Others opinions and interpretations of the demurrage changes are [here](#).

Bakken Gas Supplies

The reduction in operative Bakken oil field drilling rigs is directly affecting the supply of natural gas. Will there be enough of a differential that Canadian gas will flow into and through the U.S. to export terminals and domestic users? Drill rig count is down to the low 20s off a high of 50+ rigs at one time. This ~50% reduction means the pipeline supply has room for more gas than is being produced. Does that mean more crude oil going by rail? Read [RBN Energy's blog](#) and form your own opinions.

USDA Grain Report

The U.S. Department of Agriculture has released its most current world markets and trade report for corn, wheat, and rice. World wheat and corn production appear to have been pushed by consumption, indicating an anticipated surplus in both commodities. It's now a matter of who can buy them and where the surplus and deficit areas are—all of which is divulged in the report. Rice production has also pushed past demand. As with all commodities, certain countries have surplus, some have balanced supply and demand, and some are short of supply. The [USDA report](#) includes the major coarse grains and shows major exporters and major importers



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AAR Rail Carloads

To celebrate my oldest daughter’s birthday in March, we went skiing at a local ski hill called Bridger Bowl. It’s a nice mix of green, blue, and black diamond runs. If we were to chart our runs for the day, it would look much the same as the graph below: green and blue runs in the morning, and red (black) runs in the afternoon.

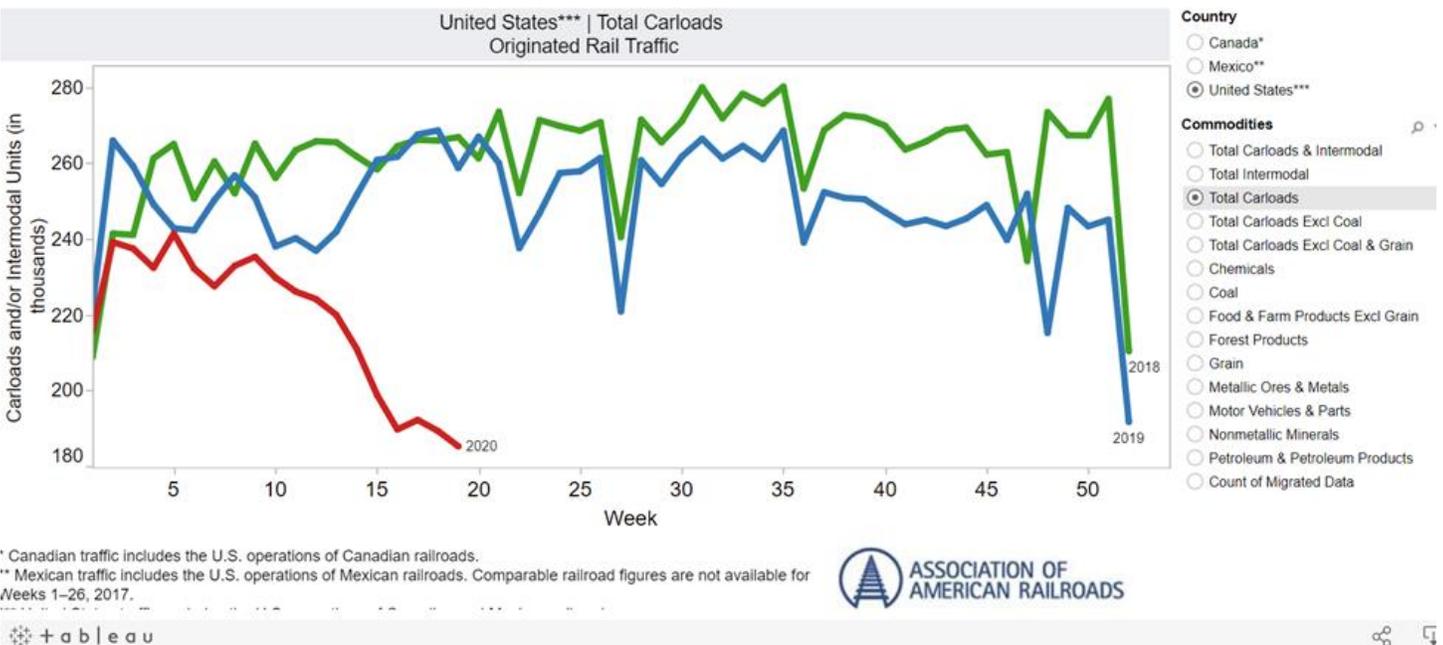
Rail carload originations have been in a freight recession for almost the past year. As discussed within the Tidbits articles in this publication, the impact that coal, grain, and oil trains (or lack thereof) has been tremendous. Couple that with COVID-19 impact, and you’ve got yourself a double-black diamond ski run. In my experience they’re doable, but it takes a lot of skill and a bit of luck not to have a wreck.

Railroads are reeling in costs as quickly as possible, and all show very respectful operating ratios. The real question is, when do you start treating fixed costs as operating costs so you can manage them on a variable basis? An interactive chart, along with a bunch of other information, can be found on the [AAR site](#). Give it a look: there’s a bunch of ways to cut the data, and you can drill down a bit on any commodity group in which you have interest.

Tealinc Updates

We launched a [new website](#) in late April. It’s very easy to navigate, with clear and concise web pages. As part of our gift to early viewers, we hosted a Website Launch Party complete with raffle and a bunch of prizes. The response was positive and we received a lot of entries! Check it out for yourself at www.tealinc.com.

We also have a series of [informative videos](#) on YouTube and linked to our website that we invite you to view.



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