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**AAR estimates Class I railroads will spend around $22 billion on U.S. capex and maintenance in 2017**

**Projected 2017 estimate of $22 billion in private spending... equals around $60 million per day**

## Railroad & Policy Updates

While heading down in recent years, the capital expenditures outlay made by United States freight railroads, specifically Class Is, still remains very impressive. That was made clear in data issued by the Association of American Railroads (AAR) [in February], which put the estimated tally for U.S. railroads investment on maintaining and upgrading "the nation's private rail network" at $22 billion.

AAR told Logistics Management (LM) that this estimate is based on numbers provided by Class I railroads on their fourth quarter earnings calls, minus the non-U.S. investments made by Canadian Pacific, Canadian National, and Kansas City Southern, so that U.S.-only numbers are factored in to come up with its annual capital expenditures estimate. And the AAR also uses what it calls a "ratio past precedent chart" to calculate what the maintenance number would be into a percentage of the capital expenditure number, then combining the capital expenditures and maintenance numbers to come up with the estimate.

The 2017 number represents a continuation of declines, with the 2016 AAR estimate at $25 billion, and $29 billion in 2015, which was ahead of 2014's $27 billion.

"This year's private network spending, a combination of capital expenditures and maintenance, is part of a continued trend of remarkable proportions, including more than $630 billion since the industry was partially deregulated," said AAR President and CEO Edward R. Hamberger in a statement. "As the House of Representatives convenes…to discuss a '21st Century Infrastructure' and policymakers continue bipartisan discussions with the Trump administration, we hope these leaders realize how important America's private freight rail network is in moving raw and finished products, supporting the U.S. manufacturing sector, providing a foundation for commuter and passenger rail and lessening deterioration of this country's public infrastructure. We pay so taxpayers do not, an undeniable benefit to the U.S. economy. Our role in moving the country's freight is critical and we look to be a productive part of a bipartisan infrastructure debate. Unlike most other transportation modes, we do not have a hard 'ask' of policymakers other than to remain free to do what we do best: safely, affordably and efficiently move goods and earn the revenues needed to continue this massive investment."

The AAR said its projected 2017 estimate of $22 billion in private spending, which it said covers upgraded track and locomotives and technological advancements to meet demand and make a safe network safer, equals around $60 million per day. Other supporting data points it offered up include: how freight railroads invest six times more of revenues in capex than the average U.S. manufacturer; create almost $274 million in economic activity; generate almost $33 billion in state and federal tax revenues; and supported almost 1.5 million U.S. jobs in 2014, the most recent year for which data is available.

With the AAR's 2017 estimate of $22 billion down 12 percent from 2016's

**"The industry continues to retool around a changing customer market and shifting traffic patterns—most notably the massive decline of coal production"**

$25 billion, it explained that is a byproduct of how "the industry continues to retool around a changing customer market and shifting traffic patterns––most notably the massive decline of coal production."

As was the case last year, when the AAR numbers were issued, estimated 2017 Class I spend projections being down in in sync with full-year 2016 volume declines that saw U.S. carloads fall 8.2 percent annually at 13,096,860, compared to 2015's 14,266,012, while intermodal containers and trailers volume decreased 1.6 percent annually to 13,490,491 units compared to 2015's 13,710,662.

To be sure, even with lower annual volumes the last two years, the railroads are not in financial peril. Instead, as Class I executives and stakeholders observe, the lower investment levels point to getting expenses in line with current market conditions, along with an eye on the future, too.

What's more, the decline in oil prices, coupled with the ongoing decline in coal loadings, has had a negative impact on Class I revenues that has been hard to overcome in some ways and subsequently made it harder for the carriers to maintain the capex programs they previously had laid out, according to an industry stakeholder speaking on background. But at the same time he said there remains a long-term need for sustained investment in infrastructure and capacity expansion, as other issues, such as highway congestion will still contribute to sector growth. Instead, he explained, the question will be how long this will last, what the options might be and at what level will the Class I's be able to continue to invest if the current predicament persists with no relief?

**"As long as railroads spend on their networks, and they continue to spend on selected growth opportunities, it is not a bare bones spending approach"**

"As long as railroads spend on their networks, that is the strategic network, they have," said Tony Hatch, principal of New York-based ABH Consulting. "And they continue to spend on selected growth opportunities, it is not a bare bones spending approach. There has also been a series of major projects around the country that were finishing up in 2015 or so that have come off, like intermodal terminal projects by CSX and Norfolk Southern. You will still see selected growth spending, but it will focus less on big projects with ribbon-cutting ceremonies and focus more on things like sidings to build out intermodal networks to make them more flexible and things like that. There will also likely be more concentrated spending in the East for sure, as well as out West, but it is less defined."

Read the entire article:
**http://www.logisticsmgmt.com/article/aar_estimates_class_i_railroads_will_spend_around_22_billion_on_u.s._capex**

## Mechanical Brief with Steve Christian

**The value of a mechanical railcar inspection**

Railcars have been leased, sold and traded long before I was in the railroad industry. It will also continue long after I am gone. While I have not been involved in all aspects of these transactions, I have been involved with one aspect that I believe is crucial to a successful transaction: railcar inspections. When I say railcar inspection, I mean a detailed inspection with extensive written notes and digital photos of the good, the bad and the ugly of the railcars. More importantly, this inspection should be done by a qualified inspector. If you memorialize the condition of the railcars before, during and after the transaction is complete, everyone involved will benefit.

**If you memorialize the condition of the railcars before, during and after the transaction is complete, everyone involved will benefit**

When either selling or purchasing railcars, inspections before the transaction should provide a means of:

- Verifying the suitability of the railcars for the service that they will enter
- Verifying the proposed purchase price or lease rate based on railcar condition as compared to others in the market
- Benchmarking the condition of the cars prior to the purchase or lease to:
    - Predict the cost and timing of future repairs
    - Produce a record to use for future lease turn-back negotiations
- Determining "into service" repair requirements
    - AAR/FRA standards
    - Customer requirements
- Customizing purchase or lease contract provisions to match the railcars involved

**In my opinion, the best case scenario is a joint inspection between both parties of the transaction at the same time**

Usually, these inspections are made separately by sellers and buyers or lessors and prospective lessees and they normally take place on private storage tracks, but not always. In my opinion, the best case scenario is a joint inspection between both parties of the transaction at the same time. Sometimes these private storage tracks are adjacent to or nearby repair shops. In that case, the enlistment of repair shop inspectors and estimators in the process should mean all costs involved in the transaction can be more accurately identified and estimated making decision making easier.

When leased cars are returned, inspection is again a valuable tool for determining:

- The present (returned) condition of the car versus the benchmarked condition from the initial inspection
- Damage caused by loading or unloading sites (excluding lessee sites). Damaging parties can then be held responsible for the cost of remediating this damage.
- Unfair usage railroad damage which would require Joint Inspection Certificate coverage per Rule 103 in the AAR Office Manual. The responsible railroad can then be held responsible for the cost of remediating this damage.
- Determine "off lease" repair requirements and costs due the lessor for:
    - AAR/FRA standards
    - The repairs as specified in the lease document.

**I strongly recommend the use of a repair shop for the lease return inspections**

These inspections can be made at the final unloading site, storage track or a railcar repair shop and I strongly recommend the use of a repair shop for the lease return inspections. In this case, I would allow the repair shop to inspect and estimate the railcars first. After that, a joint inspection between the lessor and lessee accompanied by a shop representative should take place. Hopefully, the result would be an agreement of who is responsible for what repairs. If not, all parties should have sufficient

**Tealinc has found that better inspections and better records pay dividends in the long run**

information to eventually negotiate the return terms. Following this procedure should cut down on misunderstandings, lengthy correspondence (back and forth) and strained relations.

Tealinc has found that better inspections and better records pay dividends in the long run. As always, Tealinc stands ready to apply our collective experiences and talents to work for you.

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## Railroad Traffic

**Carload and intermodal volumes posted volume gains in February 2017**

Both United States rail carload and intermodal volumes posted annual volume gains in February, according to data issued by the Association of American Railroads (AAR).

Carloads were up 6.7 percent, or 65,141, to 1,044,040, with 11 of the 20 carload categories tracked by the AAR up annually, including: Coal, up 19.2 percent or 57,589 carloads; crushed stone, gravel, and sand, up 13.1 percent or 10,091 carloads; and primary metal products, up 6.8 percent or 2,357 carloads. Declining annual commodities in February include: petroleum and petroleum products, down 12.4 percent or 5,543 carloads for its 21st consecutive monthly decline; motor vehicles and parts, down 4.8 percent or 3,746; carloads and metallic ores, down 19.1 percent or 2,793 carloads. Excluding coal, AAR said carloads were up 1.1 percent or 7,552 carloads in February 2017 from February 2016.

And the average carloads per week in February at 261,010, were up 6.7 percent annually and hit its highest level since November's average of 263,002.

**Carloads of coal; crushed stone, gravel, and sand; and primary metal products up. Carloads of petroleum and petroleum products; motor vehicles and parts; and metallic ores, down**

"The 19.2 percent increase in coal carloads in February 2017 was the highest percentage gain for coal since sometime before 1988 when our current record series began," said AAR Senior Vice President of Policy and Economics John T. Gray in a statement. "While it's an impressive gain, February 2017 was, unfortunately, also the second worst February in absolute terms for coal since sometime before 1988. It's all too representative of the challenges railroads are facing as their markets change. However, these same market changes are offering new opportunities. Over the past 15 years, the industry has worked hard to create a solid foundation to exploit these opportunities."

On the intermodal side, containers and trailers in February at 1,068,439, rose 1.8 percent, or 19,350 units, compared to February 2016.

On a year-to-date basis through the first 8 weeks of 2017, U.S carloads are up 4.8 percent at 2,040,613, with intermodal up 0.04 percent at 2,089,507.

For the week ending February 25, U.S. carloads were up 3.5 percent annually at 256,756, and intermodal was down 3 percent at 264,965.

**Railroad volumes remained above traditional seasonal**

Baird and Co. analyst Ben Hartford wrote in a research note that railroad volumes remained above traditional seasonal levels through February,

**levels through February… overall industry outlook [is] healthy and unchanged**

calling the overall industry outlook healthy and unchanged, while stating how Class I management teams expect first quarter volume growth to be slightly positive on an annual basis as well as for all of 2017, citing healthy quarter to date trends and a moderating coal headwind.

Visit the AAR at:
**http://www.logisticsmgmt.com/article/u.s._carload_and_intermodal_volumes_are_up_in_february_reports_aar**

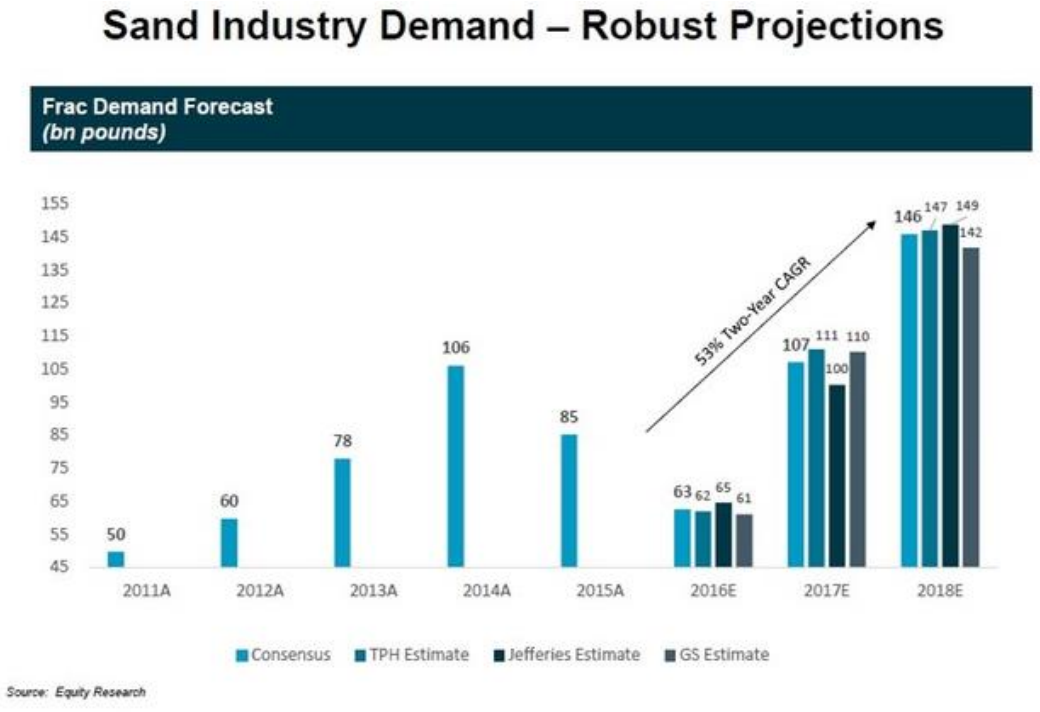
## Industrial Inside

**Why frac sand producers are optimistic about 2017**

In a recent investor presentation, Emerge Energy Services (EMES) reported, "Recently revised estimates from Wall Street analysts indicate sand demand could surpass historical peak levels by 2017."

The company expects the recovery in the sand market to be driven by an increased rig count and expected rises in sand intensity per well and wells drilled per rig.

**"Recently revised estimates from Wall Street analysts indicate sand demand could surpass historical peak levels by 2017"**




Source: EMES Presentation, January 2017

The above chart shows frac sand demand over the years, along with a forecast for the next two years.

**"Small price increases started to take effect near the end of the quarter, but we are now realizing significant upward pricing movements to start 2017"**

According to EMES, the re-fracking of existing older wells could contribute to a demand rebound. Another potential positive for the sector is the huge DUC (drilled but uncompleted) well backlog, which offers huge frac sand demand potential.

***Prices on the rise***

Robert E. Rasmus, CEO of Hi-Crush Partners (HCLP), said in the company's 4Q16 earnings release, "We saw pricing improve in the fourth quarter, especially late in the quarter. The pace of increases has

accelerated rapidly in the first quarter." He continued, "We expect pricing improvement to continue throughout the year."

Echoing the sentiment, Ted W. Beneski, chair of Emerge Energy's general partner, said, "Small price increases started to take effect near the end of the quarter, but we are now realizing significant upward pricing movements to start 2017."

**"The recovery in the oil and gas markets gained momentum in the fourth quarter and has accelerated in the early parts of the first quarter."**

***Rising demand***

"Customer demand continues to strengthen and our production facilities are effectively sold out for the first quarter," said Rasmus.
Beneski added, "The recovery in the oil and gas markets gained momentum in the fourth quarter and has accelerated in the early parts of the first quarter."

Read the entire article at:
**http://marketrealist.com/2017/03/hclp-emes-whats-driving-increased-proppant-use/**

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**Financial Focus**

**Federal Reserve raises rates on short-term interest rate for second time in three months**

WASHINGTON (MarketWatch) — The Federal Reserve on [March 15, 2017] lifted a key short-term interest rate for the second time in three months, but in a sign of caution, the central bank stuck to its forecast for just two more rate hikes this year.

The bank pointed to steady U.S. growth, an improving labor market and greater confidence among consumers and businesses to justify its decision to raise its fed funds rate to a range of 0.75% to 1%. The cost of borrowing for mortgages and most other loans for businesses and consumers are tied to the benchmark rate.

U.S. stocks extended gains after the Fed decision. Yields on the 10-year fell.

"The simple message is, the economy is doing well," Fed Chairwoman Janet Yellen said in a press conference after a central bank meeting in Washington.

**The bank pointed to steady U.S. growth, an improving labor market and greater confidence among consumers and businesses to justify its decision**

At the same time, the Fed also noted a recent uptick in prices has resulted in inflation "moving close" to its 2% target, another critical component in its decision. The bank's preferred inflation gauge, the PCE index, rose at a 1.9% pace in the 12-month span ended in January — more than double the rate as recently as last summer.

The vote was 9-to-1. The president of the Minneapolis Fed preferred to leave rates unchanged.

Some economists had thought the Fed might signal it was ready to pick up the pace of rate hikes to once-per-quarter given signs that inflationary pressures seem to be building.

Yet the Fed also left itself room to maneuver in case inflation tapers off, U.S. growth falters or some of the Trump administration's policies disrupt

**Fed added a fresh wrinkle by noting that inflation was little changed and still running below its long-term target if energy and food prices were excluded**

the economy. Central bank VIPs still see just two more rate hikes in 2017 despite a sharp pickup in inflation over the past year and a half.

In its statement, the Fed added a fresh wrinkle by noting that inflation was little changed and still running below its long-term target if energy and food prices were excluded.

The Fed was alluding to the big impact that oil prices have on U.S. inflation. Higher oil prices are largely behind the recent increase in inflation, just like plunging oil costs kept price pressures in check in 2015 and the first half of 2016.

"That rise was largely driven by energy prices," Yellen said. Still, she said the Fed expects inflation to creep higher in the near future.

Another area of uncertainty is the role of Washington. President Donald Trump is seeking to slash regulations, cut taxes, boost government spending on public works and take other measures to stimulate the economy.

Yellen said she's seen little evidence yet of sea change in the economy aside from greater confidence among businesses and consumers.

**The more unified Fed view on interest rates seems to reflect an even greater consensus on the path of future inflation. Officials see headline and core inflation reaching their 2% goal next year but not overshooting**

"We haven't tried to map out what our response would be to certain policies," she said. "We have plenty of time to see what happens."

The Fed's caution is reflected in its so-called dot plot. The Fed's "dot plot," a table of policymakers' projections for short-term interest rates, shows three hikes in 2017, three in 2018 and three in 2019. This is unchanged from the prior forecast in December.

The dot plot also shows more unity among the central bankers. Nine of 17 Fed officials penciled in two more rate hikes this year, for example. That's up from six officials in the last dot plot.

The more unified Fed view on interest rates seems to reflect an even greater consensus on the path of future inflation. Officials see headline and core inflation reaching their 2% goal next year but not overshooting. The bank did nudge up its forecast for core inflation, but only to a 1.9% annual rate this year from 1.8%.

Learn more at:
**http://www.marketwatch.com/story/fed-raises-interest-rates-by-a-quarter-point-sees-two-move-moves-this-year-2017-03-15/print**

**The Edge**
***... with Darell Luther***

**Railroad "Think": Understanding Logistics**
Also published in *Waste Advantage* Magazine.

In the February newsletter, I wrote an article titled "Railroad Think" where I covered how railroads think about rail rates, operating requirements and rail equipment (more specifically railcars). I ended that article promising to follow up on additional important railroad think items

and specifically how railroads view logistics management, railcar maintenance and accessorial costs.

My background is comprised of an almost 10-year stint at two Class I railroads where I spent a varied amount of time in marketing, integrated network management, rail fleet management, rail operations, a special finance group, tariff and contracting, unit train operations and railcar acquisitions and disposal. I've also spent the last approximately 20 plus years on the private shipper and car owner side and have also started and run two companies that focus on rail transportation at all levels. Needless to say, I've seen the viewpoint and lived the interpretation of logistics management of both a railroad and rail shipper/railcar owner. In addition I've had about five years (out of the 20 plus most recent years) where I had direct responsibility for three major railcar repair facilities, a minor repair facility and two mobile repair operations so to the railcar maintenance viewpoint I add not only a railroad and railcar owner perspective, but also a private contract shop perspective.

Logistics management, railcar maintenance and accessorial costs aren't as immediately hard hitting topics as in my first article that covered rail rates, operating requirements and rail equipment; however, for most shippers they can be like cells in the body—if taken care of and managed for health, the results are good. If ignored or not managed, they become cancerous, slowly eating away at profits. Railroads generally view these items from a different perspective than shippers.

**Logistics Management**

Logistics management is probably one of the most varied definitional subjects that there is in the transportation arena. If you're managing truck, rail, barge and ship loadings, logistics management is more involved than just managing one or a small number of loadings or receipts of products. In the rail industry, logistics management focuses intently on rail but still encompasses the other three areas of concentration. Surprising, isn't it? If you think of truck, barge and ship loading locations, you can universally classify them as demand points for loaded or empty equipment.

The rail network is comprised of tens of thousands of miles of track infrastructure connecting millions of customers served by five U.S. and two Canadian Class I railroads and more than 500 regional and shortline railroads. The fact that it's a complex network is an understatement, thus there needs to be a logistics management system in place to even have a chance of meeting customer railcar requirements.

When a railroad views logistics management there are generally two categories of business: carload and unit train. Carload business is generally more of a scheduled business enterprise where train starts are scheduled and then railcars are added to the trains until they are at maximum length for sidings or optimal size for the horsepower assigned to them. As an example, a local train, which by definition serves customers in a local geographic area, takes loads to customers and drops them off during a shift and, given sufficient time, picks up loaded railcars on the way back to the serving rail terminal or rail yard. This same local will spot empty railroad controlled railcars to customers to fulfill customer railroad system railcar orders. If the railcars to be spotted are empty private railcars they will be automatically set out at the customer location. These railcars are then marshalled to a classification yard where they'll be sorted by where they're going to ultimately end up. They'll then be placed on a manifest train to the next classification yard in their schedule. This will be repeated until they ultimately reach their destination and are placed on a local train for final delivery. In today's environment, these manifest trains and local trains run on a set schedule. The railroads' model, much the same blueprint as the airlines, uses a hub and spoke approach to distribution of railcar assets with set schedules, e.g. if you miss your flight or you miss your trains scheduled departure, you get on the next available flight or train.

There is a significant difference on how railroad supplied equipment is viewed and private equipment is viewed by railroads. If a customer is using railroad supplied equipment (e.g. equipment owned, leased or otherwise organized by the railroad), then railcars are allocated and distributed by customer orders, if the equipment is assigned to the customer directly, the equipment is treated more like private equipment. In contrast, if private equipment (owned, leased or controlled by the shipper or receiver) is used, railcars are either assigned to a customer pool with reverse route instructions or, if not assigned to a pool, they will automatically reverse route unless otherwise diverted by the customer.

For example, let's assume that five scrap metal customers each order 20 empty railroad supplied mill gondola railcars for loading during the same week. The local train crew will take the switch list (the list of which railcars are allocated to which customers) and place those empty railcars on the customers siding. The railcars will be distributed to the customers prioritizing the customer order date for the railcars, provided the customer has room for the equipment. If there are only 95 railcars available, the customer who last ordered for that week will be shorted five empty railcars until more empties are available. If there are 100 or more railcars available, the orders will all be filled. This is an oversimplification as there are a lot of potential variables that go into distributing railroad owned equipment, but it helps explain how the railroad thinks. The key takeaway for how railroads view their own carload equipment is that it is distributed based on orders or assignment. The benefit to the railroad is better use of equipment.

Railroads will expect the customer to load or unload the railcars ordered, generally within two days, and make them available for pickup by the next switch thereafter. If the railcars are not available for pickup by the allotted time, then the railcars will be subject to demurrage (which we'll address in the Accessorial section of this article). The key to understanding the railroad viewpoint at the customer level is that the railroads expect customers to quickly load or unload railcars within an allocated time or pay a penalty for the delay to the railroads assets.

Another interesting nuance of the shipping carload business from a railroad perspective is that oversight of the managing carload business is generally divided amongst departments. The railcar distribution team distributes empties. They have knowledge of all empties under their control (railroad owned equipment and private assigned equipment) from time of empty release to time of empty placement with a customer. Operations is responsible for distribution of loads to customers and have performance measures on how they're doing. Marketing and sales counts carloads as they're released to track revenue and trends. It should be noted that there is a potential disparity in managing your loaded shipment and empty railcar supply as a customer. Here's where you make a note to self—pay attention to your complete railcar cycle to be sure you get empty railcars to load and your loaded railcars get to your customers.

Unit train management is an entirely different animal. Whereas the carload business is largely scheduled, the unit train business doesn't lend itself to being easily scheduled. Schedules on unit trains generally start at the departure of the loaded trains and resources (locomotives and crews) and are allocated through the trip plan. A trip plan is generally how a train is expected to run from origin to destination and back. Trains either run in dedicated service (e.g., intermodal container loads from Long Beach, CA to Chicago and return with empty containers) or in regional service (e.g., grain trains serving multiple regional elevator origins to domestic feeders in the same geographic region or possibly to ports for export). Railroads pay close attention to both the loaded and empty side of unit trains simply because they don't lend themselves to a fixed schedule and require more management focus. Railroads generally favor unit train operation because of its more simplistic processes and generally provide economic incentives to unit train shippers whose carload shippers are not offered.

**Railcar Maintenance**

Railroads have a set of rules and regulations they are required to follow in order to safely maintain railcars. One set is through the Association of American Railroads (AAR), which encompasses the AAR Field Manual and corresponding AAR Office Manual. The Federal Governments' Federal Railroad Administration (FRA) governs the other set. In very general terms, the AAR rules and regulations cover running repair and set forth private railcar owner responsibilities and railroad responsibilities. FRA rules generally cover safety appliances such as hand holds, cross over platforms, clearance issues and they set final condemning limits to AAR rules and the like.

Railroads following FRA rules and guidelines typically inspect railcars every 1,000 miles. As with any situation, there are a few exceptions to this rule. If a customer is running new railcars in a unit train or crew districts support it and a petition is completed, inspections can sometimes be pushed to 1,500 miles. The inspection is generally a roll by inspection where the car inspector (generally an employee of the railroad or otherwise contracted by the railroad) knowledgeable in AAR and FRA rules gives the train a cursory look to be sure there aren't any AAR and/or FRA rule violations. In addition, railroads have adapted new technology and have wayside detectors for wheel wear (KIPS) truck hunting, and hotbox detectors for bearings. These technological advances each come with their own set of rules governing repair or replacement.

In the event a rule violation is detected during this inspection, railroads have the option but not the obligation to repair a defect unless the violation impedes the safe movement of the railcar; however, railroads will fix FRA repairs when they occur—that is one agency that railroads don't mess with since the rules and regulations are all about safety. On the other hand, if the AAR repairs don't impede the safe operation of the train or railcar in the train, they may be taken care of at the individual railroad's discretion or cast back to the railcar mark owner for repair.

Railroads have the option of completing repairs on any railcar that isn't their own if it requires an estimated 25 hours or less of repairs excluding trucks or 36 hours or less of repairs that includes the trucks. Trucks are the infrastructure of the railcar that supports each end of the railcar and connects with the wheels. If the repair hours are estimated to exceed the figures mentioned for foreign and private railcars, a Damage and Defective Car Tracking (DDCT) notice is sent to the railcar mark owner and the railcar mark owner must provide Railinc with shopping instructions. In the event the railcar mark owner does not provide shopping instructions within the allocated timeframe, the railroad may ship the railcar to the shop of its choosing.

In our experience there are three different approaches that Class I and shortline and regional railroads take to these optional repairs:

- One set of railroads has downsized their mechanical forces to the point where they have just enough personnel to take care of their own rail equipment and meet the FRA requirements for private or foreign rail equipment. These railroads tend to "home shop" or issue DDCT notices on railcars for repairs that others would complete to keep railcars in train and running. They also tend to use the most costly option when repairing railcars requiring railcar owners to solicit private railcar repair options, if available.
- Another set of railroads has taken the opposite approach repairing everything possible to the point of considerable delay and consternation of railcar owners. These railroads tend to focus on every repair making railcar parts exchange and general railcar repairs a business line in and of itself.
- The third set of railroads strike an even balance between what's required and what's optional working with railcar owners to find the best and most economical repair option while maintaining a fluid rail operation.

The more you delve into railcar maintenance, the more complex it becomes. There are approximately 746 pages in the Field Manual and several hundred pages in the Office Manual

that govern AAR rules and regulations. There are several hundred locations where a railcar can be repaired under the railroad operating scenario. There are also several private railcar repair shops and railroad agent shops that repair railcars that require certifications and training to be in compliance with the AAR and FRA rules and regulations. They all require the same interpretation of the rules.

Safe operations of railcars are ultimately the joint responsibility of the railcar owner and the operating railroad. Intensive repair management is required to keep railcars running smoothly, safely and within a reasonable cost structure.

**Accessorial Costs**

Accessorial costs are like tax statements—they show up when you least expect them and usually don't bring good news. It's important to not forget accessorial cost potential when planning your shipments.

Railroads have gradually moved from an all-inclusive pricing structure to an ala carte pricing structure that is often maddening to customers and difficult to understand. Railroads, rightfully so, provide a host of services that are specifically tailored to individual shippers and receivers. There are many options with corresponding pricing for managing your movements. These options and pricing include, but are not limited to, the following:

- Being able to have the railroad hold your load or empty on their tracks and then be able to order them in when you're ready for them
- Electronic billing
- The ability to divert loads and empties enroute to other destinations
- Weighing of railcars
- Out of route movements
- Handling overloaded railcars
- Special rates for specific destinations or ports that don't subscribe to the handling lines pricing
- Railcars releases to the carrier without final billing
- Demurrage

Railroads have built-in pricing for customer non-compliance with their method of operations. Railroads want customers to load, unload and properly bill (waybill) their equipment. Railroads also want clear electronically submitted instructions within their system or within a system that is compatible with their system. The old days of faxes and e-mails are pretty much over and shipper and receiver exception management to railroad standard operations can be expensive to both the railroad and to the shipper.

**Demurrage**

Demurrage deserves its own focus. From a railroad's viewpoint, demurrage is the penalty assessed to the inability of a customer to take equipment (loads or empties) when offered by the railroad. There can be several reasons for this inability to take equipment such as bunching of empties on orders, congestion in the facility, a railroad's failure to pull the interchange track when offered by the customer, electronic release of loads or empties by the customer but not placing them on the interchange track, over ordering of railcars by customer, private equipment bunching due to railroad operations impediments such as floods and severe winter weather, etc. Whatever the reason, it behooves a shipper or receiver to monitor and manage their equipment requirements to minimize demurrage charges. If the problem persists, it truly may be an issue of the shipper or receiver not having enough track or not proactively managing their shipments or receipts and deserves study, analysis and remedy.

Each railroad has a tariff outlining the situations under which accessorial and demurrage are applicable and corresponding costs. I highly encourage you to review those "ghosts in the darkness" before shipping to better understand the complete railroad view of handling your business.

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*We look forward to earning your business!*