Tealinc

Touchbase

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Regulation: Canada issues order requiring crude classification tests; STB postpones hearing on switching petition

Effective immediately, classification testing must be performed for any crude classified as "UN 1267" or "UN 1993"

Railroad & Policy Updates

The Canadian government has issued a protective order that requires anyone who imports or transports crude oil to conduct classification tests on the crude, Minister of Transport Lisa Raitt announced on October 18. The federal order was developed in response to the July 6 Montreal, Maine & Atlantic Railway derailment in Lac-Mégantic, Quebec.

Effective immediately, classification testing must be performed for any crude classified as "UN 1267" or "UN 1993." In addition, tests results must be made available to Transport Canada upon request, and safety data sheets must be updated and immediately provided to Transport Canada's Canadian Transport Emergency Centre.

Until such testing is completed, all impacted crude must be shipped as a "Class 3 Flammable Liquid Packing Group I" when transported by rail, said Raitt in a press release.

"Our government remains committed to taking action to protect public safety, and we will take targeted action to increase the safety of the transportation of dangerous goods," she said.

Transport Canada continues to work with the Transportation Safety Board of Canada (TSB) as it investigates the Lac-Mégantic accident. Transport Canada is building upon safety advisories received from the TSB to further enhance the safety of railway operations and transportation of hazardous materials in Canada, said Raitt.

Meanwhile, the long U.S. government shutdown prompted the Surface Transportation Board (STB) to postpone a public hearing on the National Industrial Transportation League's (NITL) petition concerning mandatory competitive switching that was scheduled for Oct. 22. The board plans to reschedule the hearing at a future date.

In 2011, NITL filed the "reciprocal switching" petition, which proposes that certain captive shippers located in terminal areas be granted access to a competing railroad if there is a working interchange within about 30 miles. A competitive switching agreement would not be imposed if either rail carrier can establish that the arrangement is not feasible, unsafe or would "unduly hamper" either carrier's ability to serve its customers.

The STB has received numerous comments in response to NITL's proposal and scheduled the hearing to further explore the issues raised. For example, the Association of American Railroads (AAR) filed comments earlier this year to voice opposition to revised competitive switching rules. Class Is could lose revenue equaling up to 80 percent of their annual capital budgets if the rules proposed by NITL are adopted, AAR officials claim.

Read the entire article:
http://www.progressiverailroading.com/prdailynews/news.asp?id=38

Kansas City Southern Railway Company will reduce forces on November 28 and 29 in observation of Thanksgiving

Initial training should be done before tasks are performed and periodic retraining

Make sure your employees are properly trained in any operation

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Thanksgiving Holiday Service Reductions

The Kansas City Southern Railway Company will reduce forces on November 28 and 29 in observation of Thanksgiving.

Service requests for this day should be emailed to KCS Customer Solutions by 10:00 a.m. on November 8.

Service requests will not guarantee service on these days. Once all requests are received, the local operation will attempt to secure resources to perform service on the day requested. If no message is received, it will be understood that no service is needed.

Similar service interuptions will most likely be experienced across the network. Tealinc reminds you that as we approach the holidays, appropriate planning is required to insure that reduce hours and holiday schedules do not impact your logistics chain.

Learn more at:
http://www.kcsouthern.com

Mechanical Brief with Steve Christian

I can't say that I have welcomed every change in the railroad industry in the late 20th century and early 21st century but one change that I have embraced wholeheartedly is the need for initial training before tasks are performed and periodic re-training.

I can remember when everything was OJT (on the job training). This usually meant that you were usually paired with someone who knew how to perform a job but really wasn't interested in teaching you anything. The result? It was common for a new employee to stumble along until they either sank or swam. Not an effective means for having a productive and safe work environment. The following is a good example of not only the need for initial training but also the need for periodic retraining.

A customer of ours has received complaints from their loading facility that some of the hopper doors on their open top hoppers are partially open when they arrive at the loading location to be reloaded. These cars have "Wine" single door toggle locks. They have a hook on the inside and outside edges of the door frames and cam lock mechanisms on both sides of the door. This door system operates easily compared to the other manual doors due to the increased leverage from the cam action.

Though they operate well, no door system is 100% reliable at all times. In this case, the locking mechanism mounted to the doors floats or moves within brackets mounted on either side of the door. Once in a while, the floating mechanism hangs up on one side or the other and the mechanism does not rotate into the hook to complete the locking. When this happens on the outside of the door, it is easily identified because you can't engage the locking pawl and apply the door seal. However, when this happens on

the inside, you can still engage the locking pawl and apply the door seal on the outside. This is where the person closing the door needs to pay attention and make sure the door is completely closed before moving on to the next hopper.

These same cars have run in this same service for the last few years. They travel from the same mine to the same plants loaded and return empty. About half of the year is busy with steady movements. The other half of the year is just the opposite with many of the cars sitting idle most of the time. I conducted initial training on these cars with their personnel prior to the cars being placed in service and the operation and process ran smoothly without incident during their peak season. My training sessions included special emphasis on the inner lock to make sure that it is fully engaged. As this year peak season ramped up, partially unlocked doors became an issue.

Time spent on training and retaining is money well spent

This is a reminder that re-training is important in every operation. Like many operations, this customer experiences a fair amount of employee turnover as employees move on to other positions or leave the company. In addition, employees who were initially trained may have fallen into bad habits that need to be changed.

I am convinced that time spent on training and retraining is money well spent. Let our knowledge and varied experiences serve as resources for you. Tealinc stands ready to assist you in your training and retraining needs.

*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 September 2013

The Association of American Railroads (AAR) reported on October 3, 2013 the increased total U.S. rail traffic for the month of September 2013, with intermodal and carload volume increasing overall compared with September 2012. Intermodal traffic in September totaled 1,027,522 containers and trailers, up 4.4 percent (43,055 units) compared with September 2012. The weekly average of 256,881 intermodal units in September was the second-highest monthly average of any month in history. The three highest-volume intermodal weeks in history for U.S. railroads occurred last month; only the Labor Day holiday prevented it from being the highest-volume intermodal month in history. Carloads originated in September 2013 totaled 1,159,784, up 0.7 percent or 7,595 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 September over the same month last year. Commodities with the biggest carload increases last month included crushed stone, sand, and gravel, up 10.0 percent or 8,253 carloads; motor vehicles and parts, up 12.0 percent or 7,429 carloads; and petroleum and petroleum products, up 10.4 percent or 4,825 carloads.

Commodities with the biggest carload increases included crushed stone, sand, and gravel, motor vehicles and parts, and petroleum and petroleum products

Commodity categories with carload declines last month included coal, down 2.7 percent or 12,894 carloads from September 2012; and grain, down 11.3 percent or 8,627 carloads.

Excluding coal, total U.S. carloads were up 3.0 percent, or 20,489 carloads, in September compared with September last year. Excluding coal and grain, U.S. carloads were up 4.9 percent, or 29,116 carloads, in September.

"Those who follow the rail industry know that carloads of grain and coal can rise or fall by substantial amounts for reasons that have little or nothing to do with the state of the economy," said AAR Senior Vice President John T. Gray. "Not so with most other rail traffic categories, however. The fact that rail carloads excluding coal and grain were up 4.9 percent in September — the biggest year-over-year monthly gain since last December — is a hopeful sign."

Commodity categories with carload declines included coal, and grain

AAR also reported on October 3, 2013 the increased rail traffic for the week ending Sept. 28, 2013. U.S. railroads originated 296,809 carloads last week, up 0.5 percent compared with the same week last year, while intermodal volume for the week totaled 269,853 units, up 2.9 percent compared with the same week last year and the highest intermodal total for any week in history. Total U.S. rail traffic for the week ending September 28 was 566,662 carloads and intermodal units, up 1.6 percent compared with the same week last year.

Visit the AAR at:
https://www.aar.org/newsandevents/Freight-Rail-Traffic/Pages/2013-10-03-railtraffic.aspx

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Industrial Inside

McGraw Hill Construction, part of McGraw Hill Financial, released its 2014 Dodge Construction Outlook, a mainstay in construction industry forecasting and business planning. The report predicts that total U.S. construction starts for 2014 will rise 9 percent to $555.3 billion, higher than the 5 percent increase to $508 billion estimated for 2013.

Housing predicted to lead construction growth in 2014

"We see 2014 as another year of measured expansion for the construction industry," said Robert Murray, McGraw Hill Construction's vice president of Economic Affairs. "Against the backdrop of elevated uncertainty and federal spending cutbacks, the construction industry should still benefit from several positive factors going into 2014. Job growth, while sluggish, is still taking place. Interest rates remain very low by historical standards, and in the near term the Federal Reserve is likely to take the necessary steps to keep them low. The bank lending environment is showing improvement in terms of both lending standards and the volume of loans. And, the improving fiscal posture of states and localities will help to offset some of the negative impact from decreased federal funding," said Murray.

Based on research of specific construction market sectors, McGraw Hill Construction's 2014 Dodge Construction Outlook details the forecast as follows.

Single-family housing will grow 26 percent in dollars, and multifamily housing will rise 11 percent in dollars

- Single-family housing will grow 26 percent in dollars, corresponding to a 24 percent increase in units to 785,000 (McGraw Hill Construction basis). The positives for single-family housing are numerous – the pace of foreclosures has eased, home prices are rising, and mortgage rates remain near recent lows. However, the demand for housing will continue to be restrained by careful bank lending practices towards issuing mortgages.
- Multifamily housing will rise 11 percent in dollars and 9 percent in units. While growth continues, the percentage gains will be smaller than the previous four years, reflecting a maturing multifamily market. This structure type is still a favored investment target by the real estate finance community, which in the near term should lead to more high-rise residential buildings in major cities.
- Commercial building will increase 17 percent, a slightly faster pace than the 15 percent gain estimated for 2013. Both warehouses and hotels will continue to lead the way, while stores and office buildings pick up the pace. The positives for commercial building are improving market fundamentals and more bank lending for commercial development. Next year's activity in dollar terms will still be 28 percent below the 2007 peak.

Commercial building will increase 17 percent, and institutional building will edge up 2 percent

- Institutional building will edge up 2 percent, turning the corner after five years of decline. For the educational building category, colleges are revisiting capital expansion plans, and passage of recent construction bond measures in several states should help K-12 construction projects. Healthcare construction is expected to remain flat, given continued emphasis on cost containment.
- Public works construction will drop 5 percent, pulling back after a 3 percent gain in 2013 that was lifted by the start of several large highway and bridge projects. More focus on deficit reduction will limit federal support for environmental public works, although the improved fiscal position of state and local governments will help to cushion the extent of the public works decline.
- Electric utility construction will retreat 33 percent, continuing the 55 percent correction estimated for 2013 that followed the current dollar high reached in 2012. Capacity utilization is down sharply, limiting the near term need for new generating capacity. The need for transmission line work remains strong.

Public works construction will drop 5 percent and electric utility construction will retreat 33 percent

"The 2014 picture bears some similarity to what's taking place during 2013, with single family housing providing much of the upward push; multifamily housing showing a slower yet still healthy rate of growth after four years of expansion, and commercial building gradually ascending from low levels," added Murray. "One change that's expected for 2014 is that institutional building will no longer be pulling down nonresidential building and total construction."

Read the entire article at:
http://www.rockproducts.com/index.php/news-late/12756-housing-predicted-to-lead-construction-growth-in-2014.html#UF0983

Financial Focus

Fitch puts U.S. on credit downgrade watch

Fitch credit rating service announced that it put the U.S. on credit rating watch negative because of government failure to raise the debt ceiling in a "timely" manner

The ratings service affirmed the U.S. credit rating at AAA...but the announcement puts the U.S. credit rating at risk for a downgrade

Is history about to repeat itself? As the government squabbles over the debt deal and raising the debt ceiling, the U.S. creditworthiness finds itself at risk of a credit downgrade.

Late October 15 afternoon, Fitch credit rating service announced that it put the U.S. on credit rating watch negative because of government failure to raise the debt ceiling in a "timely" manner. The ratings service affirmed the U.S. credit rating at AAA — a rating that it retained in the face of the debt ceiling debate in 2011 — but the announcement puts the U.S. credit rating at risk for a downgrade.

"The U.S. authorities have not raised the federal debt ceiling in a timely manner before the Treasury exhausts extraordinary measures," the ratings service said in a statement. "The U.S. Treasury Secretary has said that extraordinary measures will be exhausted by 17 October, leaving cash reserves of just USD30bn. Although Fitch continues to believe that the debt ceiling will be raised soon, the political brinkmanship and reduced financing flexibility could increase the risk of a U.S. default."

This brinksmanship also "have some detrimental effect on the U.S. economy," Fitch said.

The last time there was a debate over the debt ceiling, in July of 2011, Standard & Poor's downgraded the U.S. credit rating for the first time in its history, taking it from a AAA to an AA+ and throwing the markets in turmoil. At that time, Moody's and Fitch retained a rating of AAA. Earlier in October, Moody's said that the current debt ceiling debate is less dire than that of 2011 and said that the U.S. creditworthiness would not be at risk this time around. Fitch, however, clearly disagrees.

"The prolonged negotiations over raising the debt ceiling (following the episode in August 2011) risks undermining confidence in the role of the U.S. dollar as the preeminent global reserve currency, by casting doubt over the full faith and credit of the U.S.," Fitch said on October 15. "This "faith" is a key reason why the U.S. 'AAA' rating can tolerate a substantially higher level of public debt than other 'AAA' sovereigns."

Following Fitch's announcement, Dow futures plummeted triple digits. Futures of the S&P and Nasdaq were also in the red.

Learn more at:
http://www.forbes.com/sites/maggiemcgrath/2013/10/15/fitch-puts-u-s-on-credit-downgrade-watch/

The Edge

We're a facts and figures based group here at Tealinc. So far it bodes well for our approach to providing consulting and rail transportation management services for clients and we believe gives us a leg up in the railcar and locomotive leasing niche we've carved out of the industrial space in which we participate. We've found that successful negotiations has moved from a mode of where one attempts to get the most they can for their company to a mode where common ground is sought to determine how one party can help the other succeed and in doing so succeed themselves. This approach works and we practice it every day.

One of our business practice areas includes negotiating rail rate and service agreements between handling railroads and shippers. When working with our customers who are predominately shippers we find many different negotiating approaches. These range from righteous indignation, e.g. "who do they think they are that they can charge whatever they want!" to "the rate it what it is so let's just get on with the next step". Both of these statements (real customer quotes) ended up with results significantly different than what the customer first anticipated. In both cases we took a facts and figures approach. In the first case we convinced the railroad that there indeed was some underutilized fixed cost capacity that could be put to work with the customers' business and derive greater profitability for the railroad. In the second case we convinced the customer that given their business volume an off the rack rail and service rate was unjustified. We in turn convinced the railroad of the same.

The lesson here is that when dealing with the rail industry you automatically enter into a world that has complexities that are generally not evident. Often times the first signal you'll receive in negotiating in the rail world is counter intuitive to normal logistics or transport negotiations often interpreted as the railroad not wanting your business. You can generally interpret this as the initial shot over the bow approach from the railroad who is trying to determine how your business fits operationally and economically in with their current business. Don't take offense at this approach nor give up! We find that the initial response means that at the least you're negotiating. Expect a long process particularly if you're shipping significant volumes of product and work to argue your point for common ground negotiation. We're here to help!

We look forward to earning your business!