Touchbase

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UP announces California Hazmat Charge

Railroad & Policy Updates

On October 19, 2016, the Union Pacific Railroad (UP) posted a general announcement on its website regarding California Hazmat Charge. We find this announcement interesting as we anticipate it will be reflected on other railroads as well and should get your attention.

To Our Customers,

In June 2015, California passed a law imposing a charge on owners of certain hazardous materials transported by rail. The regulations became final on June 20, 2016, and the law requires collection of the charge beginning Nov. 13, 2016.

For shipments of the 25 listed hazardous commodities provided in the regulations, the charge is set at $45 per "railcar" (including intermodal), plus a collection fee. Railroads are required to collect the charge and remit it to the California Board of Equalization. The charges collected are designated for the purchase of regional hazmat equipment along with training for and responding to both rail and truck incidents.

Union Pacific has opposed this new charge in the California legislature, and Union Pacific and BNSF Railway filed a joint federal lawsuit on July 29, 2016, challenging the charge as a violation of numerous federal laws. The court heard arguments on Oct. 13, 2016, but has not yet offered a ruling.

Unless the court directs otherwise or the state extends the deadline, on Nov. 13, the law requires Union Pacific to collect $45 per rail car for shipments of the listed hazardous commodities transported in California. In addition, Union Pacific will bill a $2.25 collection fee for each of those shipments as authorized by statute. We oppose this hazmat charge and will provide updates as needed.

If you have any additional questions, please contact your Union Pacific representative.

Hazardous Material Commodity	UN Number
Acetonitrile	1648
Alcohols, N.O.S.	1987
Ammonia, Anhydrous	1005
Ammonium Hydroxide; also shipped as Ammonia Solutions	2073, 2672, 3318
Calcium Hypochlorite	1748, 2208, 2880, 3485, 3486, 3487
Chlorine	1017
Corrosive Liquid, Basic, Inorganic. N.O.S.	3266
Diesel Fuel; also shipped as Fuel Oil; also shipped as Gas Oil	1202, 1993
Environmentally Hazardous Substances, Liquid, N.O.S.	3082

Ethanol; also shipped as Ethyl Alcohol	1170
Gasoline; when shipped as Flammable Liquid, N.O.S.; when shipped as Hydrocarbons, Liquid, N.O.S.; also shipped as Gasohol; also shipped as Motor Spirit; also shipped as Petrol	1203, 1993, 3295
Hydrogen Peroxide	2014, 2015, 2984, 3149
Liquefied Petroleum Gas; also shipped as LPG; also shipped as Liquefied Gas, Flammable, N.O.S.	1075, 3161
Methanol; also shipped as Methyl Alcohol	1230
Methyl Ethyl Ketone	1193
Nitric Acid	2031, 2032
Petroleum Crude Oil; also shipped as Petroleum Oil; also shipped as Oil, Petroleum	1267, 1270
Phenol	1671, 2312, 2821
Phosphoric Acid	1805, 3453
Potassium Hydroxide; also shipped as Caustic Potash	1813, 1814
Propylene	1075, 1077, 3138
Sodium Hydroxide; also shipped as Caustic Soda	1823, 1824, 3320
Sulfuric Acid; also shipped as Sulphuric Acid	1830, 1831, 1832, 2796
Toluene	1294
Vinyl Acetate	1301

You may click here to read the entire announcement. View this Customer News announcement CN2016-25 on the Web

Mechanical Brief with Steve Christian

Does your railcar maintenance strategy include audit, inspection and visit to repair shops that are working on your cars?

I have logged a lot of miles in my steel toed boots over the last few years. Storage tracks are stacked with aluminum coal trains looking for new homes. Coal fleet owners are also looking to update their fleets in a buyer's market. Put the two together and the result is a search for the best cars at the best price. As part of our usual due diligence, we give an assessment of the condition and market value of the trainsets being offered. Hence this "slightly" overweight guy gets to see a lot of cars up close and personal.

I don't have the time or adequate space in this newsletter to write about all of the steps that I follow to conduct an inspection but there is one element of my inspection regimen you may not consider. That element is damage I see that occurs at contract shops. Here are a few examples:

Believe it or not, some of the worst track you will ever see is at repair shops

<u>Derailment Damage</u>

Believe it or not, some of the worst track you will ever see is at repair shops. Mud and dirt for road bed and threaded gauge repair rods instead of ties make for very unstable track as well as for wheels that hit the ground frequently. You may be scratching your heads on this one but if you managed repair shops like I did you would know how often this really happens. At some shops this occurs one or more times **<u>every</u>** **<u>day</u>**. Most likely the derailments occur at 10 MPH or less and moved on the ground 200 feet or less and would be classified under Rule 36.A.1.b as a "Minor

Derailment." This event requires a thorough inspection of the wheels, truck castings or other components on the derailed end. Any defects should be repaired or replaced per the AAR rules. Few shops will advise you, the customer, when this happens and what remedial actions are taken (if any). Other shops will sweep this under the rug and hope an inspector representing the owner does not perform a thorough final inspection and find indications of the derailment.

Cutting and/or Gouging Railcar Parts

In the old days you could get in plenty of trouble with a fumbled welder lead or oxy/acetylene torch slipping out of your hand and striking the car. With steel cars this might not be a big deal. With aluminum cars this could be a disaster.

Torch slip can be disastrous for an aluminum car

Long after my "car knocker" days, the introduction of air arc rods and plasma cutters has really increased the risk of damaging railcars. These tools are so much more powerful than older tools and they can cause tremendous damage by a just a brief unintended brush of the lead against the car. During many of my inspections, I have found top chords, side posts, side sheets slope sheets and tubs with gouges. With few exceptions, the cars exceed the limits allowed by the manufacturer and should be replaced. The sad fact is that almost all of these cars were run through contract repair shops for lease termination inspections and repairs and because of the dollars involved, some contract shops are very creative at covering their sins. It is a lot cheaper to grind out gouges with an aluminum sanding pad than to change out top chords, posts and tubs. In some cases, if the gouge is not too deep, this is perfectly okay but in many cases, the gouges are too deep and are covered up or "overlooked". All this amounts to is making the defect hard to detect for inspectors.

Other Shop Damage

There is a myriad of other things that can and do happen to customer's cars at contract shop such as:

- Many shops switch cars with forklifts and skid loaders in the shop. Some push or pull on end posts, end sills, sill steps, handholds, sill steps, roller bearings, side frames, pin lifters, knuckles, draft sills, side posts, etc. Moving cars in this manner will eventually result in damage to the car. Cars that have been in service for some time and switched in this manner in shop will show its scars. The sad thing is that there is a push-pull feature on every body bolster which if used would spare car damage.
- There are even instances where forklifts, cranes and other equipment strike and/or back into cars in close shop quarters. Damage can range from scratches to dents, cuts or tears.
- I have actually seen shops that ground their welders to wheelsets. A very big no-no!

Damage can range from scratches to dents, cuts or tears

I am not implying that contract shops make a habit of abusing your cars when they are shopped. However, bad shop practices, poor training and a poor quality assurance program all contribute to an atmosphere where things like this happen. Whether you are buying a different set of cars or running your normal set of cars into a shop for normal maintenance, I

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all contribute to an atmosphere where things like this happen

would recommend that you utilize a third party inspector to get an unbiased view of your cars and the work being done to your cars. The sooner a problem is detected and remedial steps taken, the better for all involved. I recommend that you audit any shops that you regularly use on a periodic basis.

Tealinc routinely perform these and many other tasks for our own fleet and others. Let us put our varied knowledge and experience to work for you.

Steve Christian is the Manager Value Creation - Operations 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

Carload traffic in September 2016 down 5.4 percent from September 2015

The Association of American Railroads (AAR) reported [on October 5, 2016] weekly U.S. rail traffic, as well as volumes for September 2016.

Carload traffic in September totaled 1,068,644 carloads, down 5.4 percent or 61,455 carloads from September 2015. U.S. railroads also originated 1,040,934 containers and trailers in September 2016, down 4.2 percent or 45,192 units from the same month last year. For September 2016, combined U.S. carload and intermodal originations were 2,109,578, down 4.8 percent or 106,647 carloads and intermodal units from September 2015.

Carloads of grain, waste and nonferrous scrap, nonmetallic minerals up; carloads of coal, petroleum and petroleum products and primary metal products down

In September 2016, nine of the 20 carload commodity categories tracked by the AAR each month saw carload gains compared with September 2015. These included: grain, up 11.2 percent or 9,860 carloads; waste and nonferrous scrap, up 28.8 percent or 3,725 carloads; and nonmetallic minerals, up 7.5 percent or 1,414 carloads. Commodities that saw declines in September 2016 from September 2015 included: coal, down 13.1 percent or 53,896 carloads; petroleum and petroleum products, down 21.6 percent or 11,810 carloads; and primary metal products, down 9.5 percent or 3,459 carloads.

Excluding coal, carloads were down 1.1 percent or 7,559 carloads in September 2016 from September 2015.

Total U.S. carload traffic for the first 39 weeks of 2016 was 9,737,216 carloads, down 10.5 percent or 1,142,905 carloads, while intermodal containers and trailers were 10,083,612 units, down 3.2 percent or 333,619 containers and trailers when compared to the same period in 2015. For the first nine months of 2016, total rail traffic volume in the United States was 19,820,828 carloads and intermodal units, down 6.9 percent or 1,476,524 carloads and intermodal units from the same point last year.

“Rail traffic in September was more of what we have come to expect this year: big declines in

"Rail traffic in September was more of what we have come to expect this year: big declines in energy related products, continued weakness in intermodal and most other export markets, but with some strength in grain," said AAR Senior Vice President of Policy and Economics John T. Gray. "The fact is, in many of their markets, railroads are facing significant

energy related products, continued weakness in intermodal and most other export markets, but with some strength in grain"

market uncertainties. It isn't helping that rail regulators are seeking to put additional costly regulatory burdens on railroads too. The inefficiencies and unnecessary costs railroads would incur if regulators succeed would make it that much harder for railroads to meet the needs of their customers and to allow the capital investment necessary to adapt their networks to a changing marketplace."

Visit the AAR at:
https://www.aar.org/newsandevents/Press-Releases/Pages/2016-10-05-railtraffic.aspx

Industrial Inside

Iron Ore Hoisted on Coat-Tails of Coal's Record Rally in China

Iron ore is surging thanks to its bulk-commodity compatriot, coal.

Benchmark spot prices topped $60 a metric ton for the first time since August after futures in China went limit-up as coal's rally pulled steel and other raw materials in the supply chain higher.

Spot ore with 62 percent content in Qingdao climbed 4.5 percent, the most in almost three months, to $61.96 a dry ton in October, according to Metal Bulletin Ltd. The contract for January delivery on the Dalian Commodity Exchange surged 3.9 percent.

"The shortage in coal supply right now seems unlikely to improve before year-end. That's driving steel prices and production higher, benefiting iron ore too."

"Iron ore alone can't make steel, it needs the help of coking coal," Dang Man, an analyst at brokerage Maike Futures Co. in Xi'an, China, said by phone. "The shortage in coal supply right now seems unlikely to improve before year-end. That's driving steel prices and production higher, benefiting iron ore too."

After three years of slumping prices as mine supply rose and China slowed, iron ore has gained 42 percent in 2016 as Asia's top economy boosted stimulus. Steelmakers in the country that produces half of world output have fired up plants after stronger demand boosted prices and expanded

Coking coal, or

metallurgical coal, has more than doubled this year as output from China tumbles amid efforts by the government to cut overcapacity even as demand from mills improves

profit margins. Coal prices have soared in 2016 on tight supplies, and HSBC Holdings Plc has said the surge in coking coal will probably keep global steel prices elevated.

Prices of hot-rolled coil climbed as much as 3.5 percent to 2,904 yuan a ton on the Shanghai Futures Exchange, the highest since April on an intraday basis, before ending at 2,884 yuan. Coking coal futures in Dalian jumped 4.5 percent to a record, while coke rose 5.3 percent.

Blast Furnaces

Iron ore's recent gains have taken place against a backdrop of mixed forecasts for the raw material. While UBS Group AG has highlighted the scope for renewed losses as mine supply expands, Toronto-Dominion Bank -- the top forecaster in a Bloomberg ranking -- expects rates to hold in the $50s.

Coking coal, or metallurgical coal, has more than doubled this year as output from China tumbles amid efforts by the government to cut overcapacity even as demand from mills improves. The commodity is mainly used to make coke, which is fed into furnaces with iron ore to make steel.

"With steel supply increasing, we may reach a point where the price increases can't be justified by higher raw-material costs anymore... "Mills' profitability will once again come under pressure and the rally in steel will unwind," hurting demand for iron ore

China's crude-steel output climbed 3.9 percent to 68.17 million tons in September from a year ago, according to the statistics bureau. Production rose 0.4 percent in the first nine months, bucking widespread predictions at the start of 2016 that output would post a significant drop this year.

"With steel supply increasing, we may reach a point where the price increases can't be justified by higher raw-material costs anymore," Dang said. "Mills' profitability will once again come under pressure and the rally in steel will unwind," hurting demand for iron ore, she said.

Read more at:
http://www.bloomberg.com/news/articles/2016-10-25/thanks-to-coal-s-record-rally-iron-ore-powers-higher-with-steel

Financial Focus

Fed holds rates and says it's waiting for 'some further evidence' before hiking again

The Federal Reserve on November 2, 2016 left its benchmark fed funds rate unchanged, as expected, and said the case for a hike continued to strengthen.

Most economists had expected that the Federal Open Markets Committee (FOMC) would leave the federal funds rate unchanged. That rate ends up influencing other rates on things like mortgages, and has been in a range of 0.25%-0.50% since last December.

Two FOMC members thought the committee should have voted to raise rates at its two-day meeting this week.

After the recession, and several years of super-low rates to encourage borrowing and spending, the Fed decided to normalize slowly, using economic data as a guide.

On its two mandates — the labor market and inflation — the data show progress since the first rate hike, and the Fed appears set to raise rates again in December.

The Fed updated its statement to show that inflation "increased somewhat," although its preferred gauge — personal consumption expenditures — still runs below the 2% target. It said job gains have been "solid," although household spending was downshifted to "rising moderately" from "growing strongly."

"We suspect that the bar to a hike is low," said Marc Chandler, global head of currency strategy at Brown Brothers Harriman, in a note. "No significant economic shocks is all it may take. Of course, a[n] unexpected US election outcome and dramatic market response could change the dynamics."

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Why wait?

The Fed's statement showed that it's looking for "some further evidence" that the labor market and inflation were progressing towards its objectives.

But also, the Fed does not usually make big policy changes when there's no scheduled press conference — and there was none on [November 2, 2016]. And, a rate hike could be too politically charged within a week of the election.

So, most bets are on December. Fed fund futures reflect these wagers among traders, and implied a 78% chance of a hike next month after the Fed's statement was released, up from 60% right before.

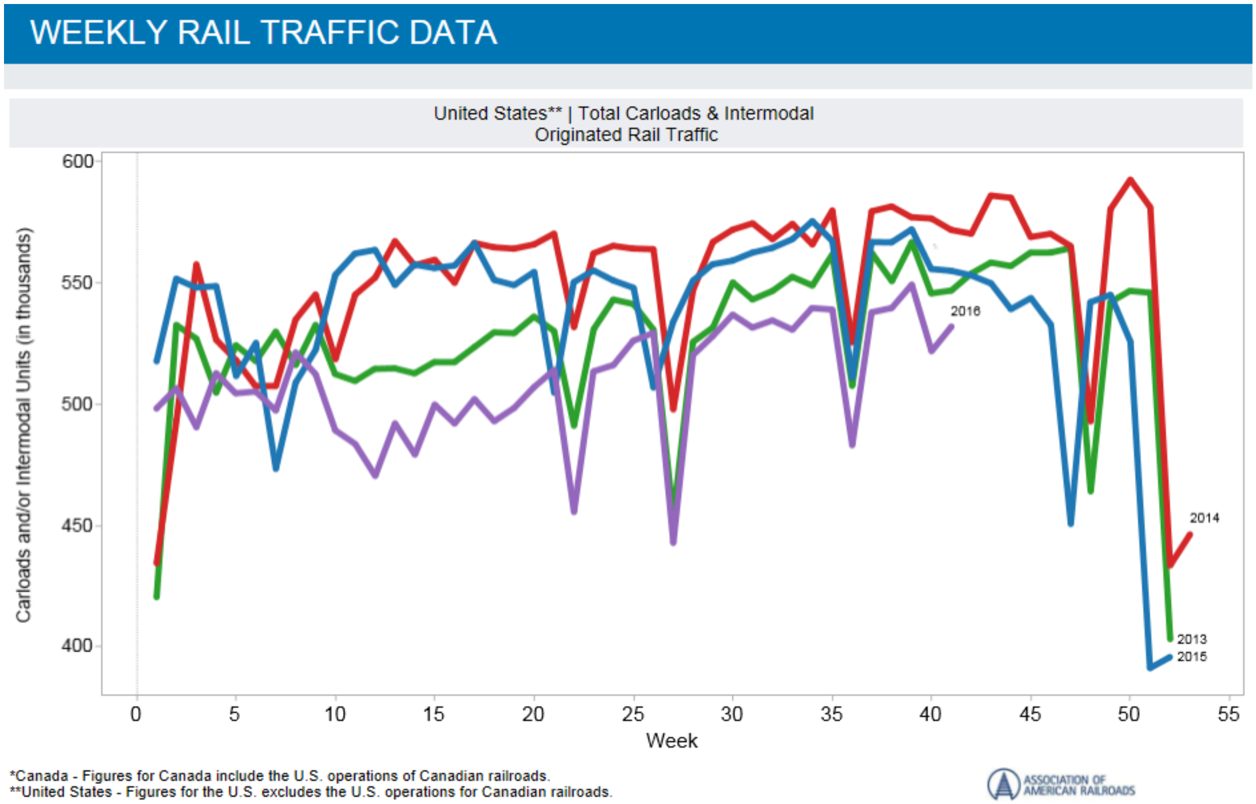
But the guidance for next month was less explicit than it was a year ago. When the Fed tried to steer market expectations in November 2015, it said it may be appropriate to start normalizing monetary policy "at the next meeting."

That drew criticism for so-called calendar-based guidance, which departs from the Fed's outspoken reliance on data.

Learn more at:
http://www.businessinsider.com/federal-reserve-fomc-statement-november-2016-2016-11

The Edge

Volumes for rail carriers continue to decline on a year over year basis as markets continue falling for major bulk commodity groups such as coal and energy related commodities and consumer goods mainly transported by intermodal. Intermodal, once thought of as a major rail carrier savior, has lost its nearby luster as well, putting up weak performances in the number of containers and trailers shipped worldwide. Weekly rail traffic data continues to show 2016 significantly under 2015 in originated carloads.



Despite the reduction in volume, rail freight traffic rates continue to hold the current line or are increasing. Reasoning being that what's going to move via truck is going to occur despite what the railroads do with pricing so there's no reason to drop rates to edge into truck shipment territory. Additionally, truck freight is not as concentrated as rail freight and the barriers to entry are low allowing more trucks to share in the same volume of goods, albeit generally at less than desirable freight rates. So a railroad push into the 500 to 100-mile circle only brings degradation of rates effecting margins and operating ratios with no financial upside. Bottom line expect rail rates to hold their own or increase as Wall Street continues to press for higher returns.

The bright side is in more competitive modes of freight transportation such as trucking and ocean going freight. The shear lack of freight volume and ease of entry into the trucking market has truck load freight rates taking regional reductions and in some cases wider based reductions. If you're a trucker or trucking company asset utilization is where you earn your paycheck. It really becomes a cover operating cost pricing scenario very quickly. Ocean going freight, mostly intermodal and some bulk carrier freight, have reduced rates in the past few years. An oversupply of ships and under supply of cargo in an environment where a shipper has options is good for the consumer.

The bottom line. Expect rail rates to remain steady to increase and truck and ocean freight to decrease.

We look forward to earning your business!