

In This Issue

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

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**Loading Authority
(OT-5)**

**If you have Loading
Authority (OT-5)
emails routed or
filtered
automatically in
your system, you
will need to update
your system to
recognize the new
email address**

**Interchange
agreements limit
the incentive or
ability of a tenant**

Railroad & Policy Updates

Railinc announced in September that it was changing the name of the Circular OT-5 system to the Loading Authority (OT-5) system effective Monday, September 30. This name change is part of a system upgrade and does not affect the way customers use the system, though users might notice minor changes to the format of the automated emails the system generates.

The upgrade occurred on Monday, September 30, between 7:00 and 12:00 EDT.

What You Need to Do

Beginning on September 30, automated emails from the Loading Authority (OT-5) system will come from noreply@railinc.com instead of cot5@railinc.com. If you have Loading Authority (OT-5) emails routed or filtered automatically in your system, you will need to update your system to recognize the new email address.

Additional changes to the Loading Authority (OT-5) system will not affect the way you interact with the application and will include the following:

- Timestamps on all comments
- Physical mailing addresses in all CSV downloads of search results
- Content and formatting updates to the Loading Authority (OT-5) system's automatically generated emails

If you have any questions about the Loading Authority (OT-5) system, contact Tealinc, Ltd. At com webmail@tealinc.com or contact the Railinc Customer Support Center by email at csc@railinc.com or by phone at 877-724-5462.

STB Adopts New Rules On Transactions Involving Interchange Agreements

The Surface Transportation Board (STB) September 9, 2013 announced it adopted final rules establishing disclosure requirements for transactions involving interchange agreements.

Contractual provisions included in a rail line lease or sale, interchange agreements limit the incentive or ability of a tenant or purchaser railroad to interchange traffic with a railroad other than the leasing or selling railroad.

Under the STB's former rules, if a proposed rail line acquisition involved an interchange agreement, the proponent had to inform the board about the pact and file a complete, confidential version of it with the STB.

Now under the adopted final rules, parties must file the following with the board: information concerning shippers, carloads and potential

**or purchaser
railroad to
interchange traffic
with railroad other
than the leasing or
selling railroad**

**Railcar
modification – how
to perform it legally**

**In our industry, we
have the guidance
of the Association
of American
Railroads to walk us
through the process**

interchanging railroads on the affected line; a verification that shippers on the line have been notified; an estimate of the lease- or sale-price differential with and without an interchange agreement; and a case caption that indicates an interchange commitment.

The purpose of the rulemaking is to help the board and affected parties determine at the outset whether a transaction that includes an interchange agreement is appropriate for the board's exemption process or raises competitive issues that require a more detailed examination, STB members said in their decision.

Read the entire article:

<http://www.progressiverailroading.com/prdailynews/news.asp?id=37584>

Mechanical Brief with Steve Christian

I was recently asked if a railcar owner could remove the internal bracing of a high side gondola. On a separate occasion, I was asked if “spine” flats could have bunks added for log loading. The answer to both is yes. However that yes carries some big qualifications. The first thing to consider is what the modifications will do to the structure of the car and what other measures/modifications must be done to preserve the structural integrity of the car. In our industry, we have the guidance of the Association of American Railroads to walk us through the process.

The AAR Office Manual Rule 88 entitled MECHANICAL REQUIREMENTS FOR ACCEPTANCE is the rule that sets forth the basic mechanical rules for all cars placed in interchange service on North American Railroads. The AAR Office Manual Rule 88.C.1.d entitled “Modified Units,” tells you when mechanical changes to a railcar (unit) are considered a modification. Once you make that determination, this rule then guides you in the evaluation, approval and modification process to achieve AAR Modified status.

The specific railcar changes that I was asked about are clearly within the scope of this rule since they would result in changes in load distribution for both the gondola and the spine car. Changes to internal bracing are specifically mentioned in the rule as being considered a modification. Adding log bunks definitely results in changing the load distribution of the car of the spine cars.

Now that we have established the need to follow the requirements for a Modified Unit under AAR Rule 88, the procedure as set forth in Rule 88.C.d.(2), (3) and (4). Here is the short version of those requirements:

1. All structural members subject to increased stresses must conform to AAR Specification M-1001.
2. Rule 88 has a “Minimum Mechanical Requirements Chart” that defines the requirements by Category to attain Modified Unit status. Review this carefully.

Establish that you need to follow the requirements and then follow the correct procedure

Before you enter into a modification program, you need to sharpen your pencil and do your homework

AAR reports increased intermodal, carload rail traffic for August 2013

3. The shop making the modifications must have AAR M-1003 Certification (QA).
4. Verification by a car builder or degreed Engineer that the affected members will conform to M-1001 after modification.
5. Sample car inspection of modified car must be made by a qualified person that is certified by a degreed Engineer or an assigned AAR Inspector.
6. Form A, Section C.4 must be submitted to the AAR, with supporting data.
7. The Form and data will be reviewed by the AAR Engineering Committee and an approved Form A must be received by the car owner before modification work can continue.
8. UMLER must be updated when appropriate after the cars are Modified.

Of course this is a simplified overview of the evaluation, approval and modification process. As you can see this isn't an easy process. It also isn't an inexpensive process. I would be surprised if the financial justification is there for modifying small groups of cars. Before you enter into a modification program, you need to sharpen your pencil and do your homework. Tealinc is always ready to apply our knowledge and experience to better serve you.

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

The Association of American Railroads (AAR) September 5, 2013 reported increased total U.S. rail traffic for the month of August 2013, with intermodal setting a new record and carload volume increasing overall compared with August 2012.

Intermodal traffic in August 2013 totaled 1,031,179 containers and trailers, up 4.4 percent (43,398 units) compared with August 2012. The weekly average of 257,795 units in August 2013 was the highest weekly average for any month in history. Carloads originated in August totaled 1,178,619, up 0.5 percent or 5,285 carloads compared with the same month last year.

Twelve of the 20 commodity categories tracked by the AAR each month saw year-over-year carload increases in August 2013 over the same month last year. Commodities with the biggest carload increases in August included petroleum and petroleum products, up 18.5 percent or 8,148 carloads; crushed stone, gravel and sand, up 9.3 percent or 7,645 carloads; motor vehicles and parts, up 7.7 percent or 4,844 carloads; stone, clay, and glass

Commodities with the biggest carload increases in August included petroleum and petroleum products, crushed stone, gravel and sand, stone clay and glass products, and waste and nonferrous scrap

“Intermodal’s strength is a testament to the massive private investments railroads have made...”

USDA projects record corn crop

products, up 10.1 percent or 3,250 carloads; and waste and nonferrous scrap, up 24.0 percent or 2,860 carloads.

Commodity categories with carload declines last month included coal, down 2.0 percent or 9,915 carloads from August 2012; and grain, down 9.0 percent or 6,570 carloads.

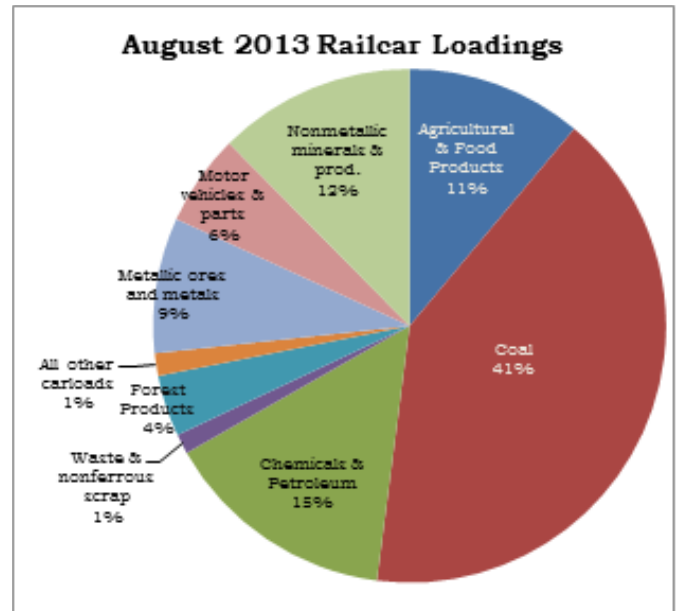
Excluding coal and grain, total U.S. carloads were up 3.6 percent, or 21,770 carloads, in August 2013 compared with August 2012.

“In terms of average weekly volumes, August was the best intermodal month in history for both U.S. and Canadian railroads,” said AAR Senior Vice President John T. Gray. “Because the fall is typically the peak season for intermodal traffic, it wouldn’t be surprising to see new records set in September and October. Intermodal’s strength is a testament to the massive private investments railroads have made in their intermodal operations and the tremendous effort they’ve put forth in improving the reliability, responsiveness, and cost effectiveness of their intermodal service.”

Visit the AAR at:

<https://www.aar.org/newsandevents/Freight-Rail-Traffic/Pages/2013-09-05-railtraffic.aspx#.Ui9SeNLOmTM>

Chart data excludes intermodal carloads. Data derived from the AAR



Industrial Inside

The September World Agricultural Supply and Demand Estimates from USDA, released on Sept. 12, project U.S. corn production at 13.8 billion bushels, up 80 million bushels from the August estimate and more than 3 billion bushels more than last-year’s crop. The projection is based on an average yield estimate of 155.3 bushels per acre, up from last-month’s estimate of 154.4 bushels and last-year’s average yield of 153.4 bushels per acre.

Higher yields for the Central Plains and across the South more than offset yield reductions for Iowa and North Dakota.

The agency also raised its estimate for sorghum production significantly, from 359 million bushels last month to 396 bushels in this month’s report,

Corn supplies for the 2013-2014 crop year are projected 18 million bushels higher than a month ago due to increased production...

Soybean production is down 106 million from last-month's estimate due to lower yield prospects...

Bill Gross: get used to low rates 'for decades'

with the yield estimate up from 59 to 65 bushels per acre. Last year's sorghum production was 247 million bushels.

Corn supplies for the 2013-2014 crop year are projected 18 million bushels higher than a month ago due to increased production, but projected imports are reduced 5 million bushels and beginning stocks are down 58 million bushels on lower imports and higher use projections for the current crop. Projected corn use for 2013-2014 is unchanged and the report projects ending stocks for 2013-2014 crop year at 1.85 billion bushels, 18 million bushels higher than last month's estimate. Ending stocks for the 2012-2013 crop year are estimated at 661 million bushels.

The agency dropped its estimate for season-average farm price for corn by \$0.05 per bushel to \$4.40 to \$5.20 for the 2013-2014 crop year. That compares with an estimated average of \$6.90 per bushel for the current crop.

Soybean production is projected at 3.149 billion bushels, down 106 million from last-month's estimate due to lower yield prospects, especially in the western Corn Belt. The soybean yield is forecast at 41.2 bushels per acre, down 1.4 from last month but up from 39.6 bushels last year.

The 2013 forecast for total red meat and poultry production is raised from last month. 2013 Beef production is raised from last month on greater cow and bull slaughter. Total beef production continues to decline year-over-year, however. For 2014, the report estimates U.S. beef production at 24.1 billion pounds, down from 25.6 billion this year and 25.9 billion in 2012. The report projects an average fed-steer price this year at \$123 to \$126 per hundredweight and next year at \$126 to \$136.

The pork production forecast for 2013 is raised from last month as lower hog slaughter in the second half is more than offset by heavier average carcass weights. The report estimates 2014 pork production at 24.1 billion pounds compared with 23.4 billion this year and 23.2 billion in 2012.

Read the entire article at:

<http://www.cattlenetwork.com/e-newsletters/drovers-daily/USDA-projects-record-corn-crop-223534641.html>

Financial Focus

Ben Bernanke has stressed that the Federal Reserve probably won't raise interest rates until 2015, but bond king Bill Gross predicts that ultra-low rates will be around much longer.

"The United States (and global economy) may have to get used to financially repressive -- and therefore low policy rates -- for decades to come," wrote Gross, co-founder of investment firm Pimco and manager of the \$250 billion Pimco Total Return (PTTRX) bond fund, in his latest monthly outlook.

The Fed has been holding its benchmark interest between zero and 0.25% since December 2008. The central bank has said it will keep rates low until

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..Fed's own forecasts call for the jobless rate to possibly fall as low as 6.5% next year, most Fed officials expect they'll keep interest rates near zero until 2015

the unemployment rate falls to around 6.5%, -- as long as inflation doesn't accelerate beyond 2.5% a year.

Though the Fed's own forecasts call for the jobless rate to possibly fall as low as 6.5% next year, most Fed officials expect they'll keep interest rates near zero until 2015. By the end of 2015, Fed members expect a 2% federal funds rate.

But Gross thinks investors should "bet against that" happening.

"If you want to trust one thing and one things only, trust that once QE is gone and the policy rate becomes the focus, the fed funds will then stay lower than expected for a long, long time," he said.

Why will rates stay low for the foreseeable future? Gross says just look at the past few months, which show the economy is still not ready for higher rates.

The 10-year Treasury yield spiked from 1.6% to near 3% in the span of four months on the chance the Fed was going to begin to taper, or cut back on its \$85 billion in monthly bond purchases. That pushed up mortgage rates, which is weighing on housing starts and mortgage refinancing activity.

"The economy peeked its head out its hole like a groundhog on its special day and decided to go back inside for another metaphorical six weeks," wrote Gross. "No spring or summer in sight at those yields."

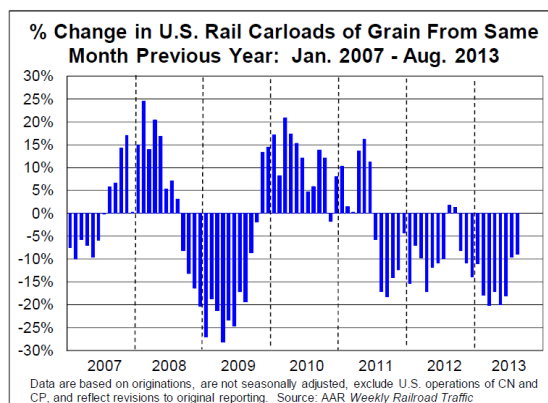
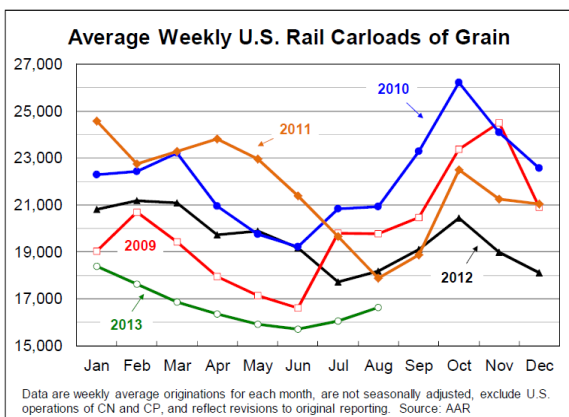
Gross said bond investors should be approaching the market "like a totally hyena-aware lion club -- know there's bad things that can happen out there in the jungle, but for now enjoying the all clear silence of the African plain."

Read more at:

http://money.cnn.com/2013/10/02/investing/bill-gross-interest-rates/index.html?iid=SF_BN_LN

The Edge

In September the USDA released a report announcing a projected record corn crop in 2013-2014. After severe droughts in 2012 thwarted growth of the U.S. grain market, data reflecting carloads of grain moved in the first half of 2013 proved an even greater decline (see the graph). No wonder we see 4750's still parked in storage.



Given the rollercoaster that has been grain loadings over the past couple of years, I was excited and honored to attend the Transportation, Elevator and Grain Merchants Association (TEGMA) fall symposium in September. The symposium kicked off with an afternoon meeting amongst the National Grain Car Council (NGCC). The venue is interesting in that while the public is welcome, unless you're a member of the NGCC you sit in the peanut gallery and observe. Questions are allowed but it's clear that outside comment is not the focus of the event. In an industry controlled by commodity pricing, changing global market competition (think Brazil and the Ukraine), political uncertainty (think the Farm Bill) and throw in good old Mother Nature, you've got a lot to talk about.

The NGCC members consist of members from the Surface Transportation Board (STB), railroads (both Class I's and Shortlines), grain producers and shippers, and railcar owners and lessors. While the Council delivered similar yet differing reports of what they're seeing in their region, the message was much the same overall: "we're expecting and thankful for higher yields than we saw last year". Some of the comments from both the NGCC meeting and the TEGMA meeting included:

Volume:

- 2012 saw the second lowest number of grain export shipments since they started keeping record
- 2013 rail originations of grain Jan – April were the lowest volumes since 1988. Fall 2013 numbers expected to be up.

Wheat:

- Most acres are harvested
- Wheat is down in the west (due to continued drought in Kansas)

Corn:

- The corn crop was downgraded in September from extremely good to good following a round of unseasonably hot late summer weather
- Pacific Northwest corn crops are down

Soybeans:

- Soybeans may be down in the north as much as 13% to 14%... maybe even 25%
- Soybeans up in the west
- Pacific northwest soybeans are looking favorable
- The price of soybeans will be high enough that some farmers will choose to leave corn on the ground and focus on beans
- 68% of soybeans rail loadings are destined for Washington or Oregon for export
- Forecasted that there's an approximate 8 million acre shortage of soybeans – a real opportunity for the US

Railroad / Shippers:

- It's the railroads year to shine. Most say they have adequate car and locomotive supplies, higher velocities and lower carloads and many are saying where service and turn times took weeks and days they're now taking hours
- Trend is towards a higher percentage of private railcar ownership for grain shippers

Market Drivers / Competition:

- China has an intense appetite for soybeans and grain and the world is paying attention
- South America has a larger corn crop this year than the U.S. As the global markets change, so will the traditional shipping model
- Brazil and Ukraine are currently supporting huge crops and the global grain market is now becoming a much more competitive place. For the world it's great news. For the U.S. it means we need to be at the top of our game. U.S. advantage is providing predictability and reliability in the delivery of export shipments

August railcar loadings as reported the AAR indicated that August 2013 U.S. carloads of agricultural and food products were 11% of the total carloadings. While 11% may not seem like a lot, grain carloads moved in shuttle / unit trains are a major focus of railroads and will affect overall train velocity, dwell times and equipment (railcars and locomotives) supply. Planning for (and around!) the USDA's projected record corn crop is essential in keeping freight moving. We look forward to assisting you in the process.

We look forward to earning your business!