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For railroads, the good news out of the Bakken Shale keeps on flowing

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Railroad & Policy Updates

From a production and transportation perspective, the good news out of the Bakken Shale seems to keep on flowing. In North Dakota, daily oil production jumped 17 percent during the year's first six months compared with the same 2013 period, surging past the 1 million-barrels-per-day production milestone. And production in the Northern Great Plains Region — which includes the Dakotas and Montana — will continue to increase at a similar clip, according to the U.S. Energy Information Agency (EIA). By the end of 2014, the region will produce 1.1 million barrels per day (bpd); in 2015, it will produce 1.3 million bpd, or 20 percent more, EIA predicts.

And nearly three quarters of that oil continues to move out along the rails to a growing network of refineries and shipping facilities, according to logistics/supply-chain firm PLG Consulting. What's more, Bakken observers continue to forecast more gains.

"We're bullish on the future. This is going to continue for a long time," says Nathan Savage, senior vice president of Savage Services, which provides transloading services that connect crude producers to railroads in the Bakken, the 200,000-square-mile formation covering parts of Montana, North Dakota and Saskatchewan that contains large oil reserves. "We're investing heavily in this industry."

But there is what PLG President Taylor Robinson calls a "wild card" mixed in with the optimistic projections: the shadow cast by last year's Lac-Megantic disaster. Proposed rule changes by the Federal Railroad Administration (FRA), more questions from worried public officials and grassroots opposition from people living near crude-by-rail (CBR) routes — all triggered by the July 2013 Lac-Megantic, Quebec, derailment — could put a crimp in the growth of CBR from the Bakken, and in CBR, period.

"It's an unforeseen challenge that everyone's concerned about," Robinson says.

Despite that challenge, Class Is continue to report strong Bakken business that they, as well as market observers, expect will continue to grow.

"It's an important, if minor piece of the railroad renaissance," transportation analyst and consultant Tony Hatch says of the rails' Bakken business. "The railroads have created a whole new line of business. It will remain an important story."

Chapters of that story still are being written, with railroads continuing to release record-breaking traffic numbers. The Association of American Railroads (AAR) reported a 1.4 percent increase in CBR from all U.S. sources in first-quarter 2014. The 110,164 carloads were the most ever reported for crude in a quarter, although the AAR doesn't break out what percentage came from the Bakken.

Read the entire article:
http://www.progressiverailroading.com/rail_industry_trends/article/For-railroads-the-good-news-out-of-the-Bakken-Shale-keeps-on-flowing--41766

AAR Raises Concerns About STB Reauthorization Bill

The proposed STB Reauthorization Bill would harm railroads' ability to move freight deliver the service shippers expect and reinvest capital

The proposed Surface Transportation Board Reauthorization Bill (S. 2777) would harm railroads' ability to move freight, deliver the service shippers expect and reinvest capital, Association of American Railroads (AAR) officials said in a press release issued September 17, 2014.

Introduced on September 10, 2014 by Sens. John "Jay" Rockefeller (D-W.Va.) and John Thune (R-S.D.), the legislation is scheduled to be marked up on September 18, 2014 in the Senate Commerce Committee.

The bill proposes to expand the number of Surface Transportation Board (STB) members from three to five; eliminate a holdover limitation and allow limited board meetings without an initial public meeting notice, but with later public disclosure; and require the STB to establish a database of complaints and issue quarterly reports on them.

In addition, S. 2777 would change the case review process by requiring the board to establish timelines for stand-alone rate cases and report on rate-case methodology. It also would direct the STB to prevent railroads from using an approach commonly used by both railroads and shippers in contract negotiations to "bundle" offers, but would allow shippers to continue to do so, according to the AAR.

"The STB has no authority over rail contracts and should not be directed to interfere in agreements that are arms-length transactions freely entered into by both parties," according to the AAR press release.

The legislation also would give the STB expanded authority to launch investigations of a railroad, even where no complaint against the railroad has been lodged, according to the association.

"On the one hand, everyone wants to see capacity grow and traffic flow unimpeded, and on the other hand, there are those that want to undercut our very ability to get the capital necessary to invest," he said. "This is a perfect example of you simply can't have it both ways."

If it passes in its current form, the bill would prevent railroads from being able to reinvest record amounts of private capital into the freight-rail system, said AAR President and Chief Executive Officer Edward Hamberger.

"On the one hand, everyone wants to see capacity grow and traffic flow unimpeded, and on the other hand, there are those that want to undercut our very ability to get the capital necessary to invest," he said. "This is a perfect example of you simply can't have it both ways."

Read the entire article:
http://www.progressiverailroading.com/federal_legislation_regulation/news/AAR-raises-concerns-about-STB-reauthorization-bill--41891?email=julie@tealinc.com&utm_medium=email&utm_source=pr

dailynews&utm_campaign=prdailynews09/17/2014

Mechanical Brief with Steve Christian

AAR field manual rule 88.B.2 explained

Last month I discussed Rule 88.C in the AAR Office Manual. I broadly defined the different "statuses" of units (railcars) and the requirement that work performed to meet these statuses must be accomplished by shops that had both AAR B26 certification, Freight Car Repair Facility Performing Office Manual Rule 88 Repairs/Modifications, and AAR M-1003 Quality Assurance Qualification.

This month I want to look at Rule 88.B.2 in the AAR Field Manual. People in the tank car industry probably are more familiar with this rule than those in the freight car industry. In fact, the date of the last "Rule 88.B.2" inspection is a part of the required information displayed on the qualification decal on both sides of every tank car. The tank car requirements are more complicated than freight car and must conform to the Manual of Standards and Recommended Practices, Section C-III Specifications for Tank Cars, M-1002. I will limit this month's discussion to Rule 88.B.2 as it pertains to freight cars.

When your freight car work exceeds 85 labor hours, the shop must perform a thorough inspection to 11 specific parts of the railcar

Rule 88.B.2 comes into play when any freight car receives repairs that exceed 85 labor hours. The 85 hours can include painting and lining but would exclude purging, cleaning or water testing. When your freight car work exceeds 85 labor hours, the shop must perform a thorough inspection to:

- Body bolsters
- Center plates
- Center sills
- Crossbearers
- Crossties
- Draft systems and components
- End Sills
- Side Sills
- Trucks
  - As part of the truck inspection, wedge rise must be gaged (note Figures A-1, A-2, A-3, B-1 in the Field Manual).
    - Correction can be made by friction shoes and associated parts replacement.
    - If the wedge rise can't be corrected by parts replacement, the trucks must be repaired in accordance with AAR specification M-214. M-214 work can only be performed by a shop with AAR M-214 certification.
- Handbrakes
  - More than 3/32" wear between the hand brake drive shaft and bearing condemns the handbrake
- Doors
  - Gear type plug doors must have an anti-spin device (if not already equipped).
  - Lever type plug door operating levers must have an anti-kickback device installed (if not already equipped).

The only shop that are authorized to perform these inspection must have received B25 certification by the AAR

To accomplish these inspections, the car must be jacked and the trucks rolled out to measure and inspect the center plates and bolster bowls. Removal and reapplication of the draft system could be required if a thorough inspection is not possible without doing so.

In any case, the only shops that are authorized to perform these inspections must have received B25, Freight Car Repair Facility Engaged In Repairs Involving Over 85 Hours Labor and/or Wreck Damage, certification by the AAR. The shop must also have quality assurance certification in accordance with AAR Specification M-1003 and have previously passed an AAR MID technical inspection.

Once again, I encourage you to check the shop credentials (certifications) before sending your railcar in for repair. As always, Tealinc stands ready to put our knowledge and experience to work for you.

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Railroad Traffic

AAR reports increased rail traffic for August 2014

The Association of American Railroads (AAR) reported in the September 4, 2014 report an increase in U.S. rail traffic for August 2014, with both carload and intermodal volume increasing compared with August 2013. U.S. railroads originated 1,212,287 carloads in August 2014, up 2.9 percent or 33,838 carloads compared with August 2013. Total carloads averaged 303,072 per week in August 2014, which is the highest weekly average for any month since October 2011 and the highest for August since 2008.

U.S. railroads also originated 1,075,688 containers and trailers in August 2014, up 4.3 percent or 44,520 carloads, compared with August 2013.The weekly average of 268,922 intermodal units in August 2014 was the second-highest weekly average ever, slightly behind June 2014.
In August 2014, combined U.S. carload and intermodal volume was 2,287,975 units, up 3.5 percent or 78,358 units compared with August 2013. Average weekly volume was 571,994 carloads, containers, and trailers.

"The broad range of commodities that are seeing higher rail volumes is a welcome sign for the economy"

"The rail industry has played and is continuing to play a critical role in the U.S. economy's resurgence. In fact, average weekly U.S. rail volume, in terms of carloads plus intermodal containers and trailers, was higher in August 2014 than in any month since October 2007," said AAR Senior Vice President John T. Gray. "The broad range of commodities that are seeing higher rail volumes is a welcome sign for the economy."

The AAR also reported U.S. Class I railroads originated 119,634 carloads of crude oil in the second quarter of 2014, 8.6 percent more than the first quarter of 2014 and the most ever in any quarter. In the first half of 2014, crude oil accounted for 1.6 percent of total originated carloads for U.S. Class I railroads.

Commodities with the biggest carload increases included petroleum and petroleum products, crushed stone, sand and gravel, and grain

Fifteen of the 20 commodity categories tracked by the AAR each month saw year-over-year carload increases in August. Commodities with the biggest carload increases included petroleum and petroleum products, up 13,127 carloads, or 25.2 percent; crushed stone, sand and gravel, up 12,873 carloads, or 14.4 percent; and grain, up 10,655 carloads, or 16 percent. August was the tenth-straight double-digit year-over-year increase for grain. Weekly average grain carloads of 19,326 in August 2014 were the highest for August since 2010; year-to-date, grain originations were up 19.2 percent over last year.

Commodity categories with carload declines last month were led by coal, down 20,447 carloads or 4.2 percent. Excluding coal and grain, carloads were up 43,630 carloads, or 6.9 percent in August.

Visit the AAR at:
https://www.aar.org/newsandevents/Freight-Rail-Traffic/Pages/2014-09-04-railtraffic.aspx#.VCGWE_ldVqU

Industrial Inside

Chinese steel and iron ore jump on rebound relief

China's steel futures rebounded further on September 15, 2014 after the market finally found some support on September 12, 2014. Trading on the GlobalORE iron ore platform also showed a significant recovery, with three deals closed at levels as much as $3.50/tonne higher than on September 12, 2014.

Iron ore had its best day in weeks on September 15, 2014 with 350,000t of ore traded on GlobalORE and all significantly higher than prices last week. Shortly after midday Beijing time 90,000t of 62% MNP fines was traded at $84.20/dry metric tonne cfr Qingdao for November delivery, shortly followed by a similar cargo at $84.50/dmt.

The final deal confirmed the increase. 170,000 t of PB fines traded at $87/dmt cfr Qingdao for October delivery, up $3.50/dmt from a trade on Friday.

The January 2015 rebar contract on the Shanghai Futures Exchange surged Yuan 55/t to close at Yuan 2,826/t ($460/t) on 15 September. However, it remained a good way off the psychological Yuan 3,000/t barrier which it fell through last month. The same contract for hot rolled coil also strengthened by Yuan 46/t to Yuan 2,996/t.

How much more of a rebound is left remains to be seen. Medium term outlook for both iron ore and steel remains weak. Sources recently told Kallanish they expect rebar to fall another 10% by the end of the year, while another source suggested iron ore would close the year at $80/t. However, the market finding a bottom and the possibility, far from certain, that there could be a seasonal recovery in construction activity later this month or in October suggests sentiment could still be enough for a further minor upswing.

Iron ore had its best day with 350,000t of ore traded on GlobalORE

Read the entire article at:
http://www.kallanish.com/articles/Chinese-steel-rebound.html

Fed Keeps 'Considerable Time' Pledge as Growth 'Moderate'

"The labor market has yet to fully recover…there are still too many people who want jobs but can't find them."

"Even after employment and inflation are near mandate-consistent levels, economic conditions may for some time warrant keeping the target

Financial Focus

The Federal Reserve stuck to its pledge to keep interest rates near zero for a "considerable time" after it stops buying assets, even as it outlined a strategy to exit from six years of unprecedented easing.

"The labor market has yet to fully recover," Fed Chair Janet Yellen said at a press conference on September 17, 2014, after a meeting of the Federal Open Market Committee in Washington. "There are still too many people who want jobs but can't find them."

Yellen added that "inflation has been running below the committee's 2 percent objective," a contrast to the panel's July statement that it was "somewhat closer" to its goal.

Treasuries declined and stocks gave up early gains as investors focused on an increase in Fed officials' interest-rate projections for next year. Officials raised their median estimate for the benchmark federal funds rate, expressed as dots on a chart, to 1.375 percent at the end of 2015, compared with a June forecast of 1.125 percent.

"Yellen wants to leave the impression there's no rush to hike, but at the same time if you look at the 2015 dots they're above what they were before and that implies some normalization next year," Thomas Costerg, an economist at Standard Chartered Plc in New York.

Forward Guidance
The Standard & Poor's 500 Index was up 0.1 percent to 2,001.57 at the 4 p.m. close of trading in New York after rising as much as 0.6 percent. The yield on the 10-year Treasury note rose three basis points to 2.62 percent.

Policy makers tapered monthly bond buying to $15 billion in their seventh consecutive $10 billion cut, staying on course to end the program in October. Yellen, at the press conference, declined to specify how quickly rates might rise after purchases end.

Data Dependent
"There is no mechanical interpretation" of the "considerable time" phrase, she said. "The decisions that the committee makes about what is the appropriate time to begin to raise its target for the federal funds rate will be data-dependent."

Yellen and her Fed colleagues are debating how much longer to keep interest rates near zero as they get closer to their goals for full employment and stable prices. Some officials have said dropping the "considerable time" pledge would give the Fed more flexibility to react to the latest economic data.

Dallas Fed President Richard Fisher and Philadelphia Fed President Charles Plosser both dissented from today's statement.

federal funds rate below levels the committee views as normal in the longer run"

Yellen also updated plans for the "normalization" of monetary policy following the Fed's unprecedented actions to battle the worst recession since the Great Depression.

Gradual, Predictable

She said the Fed will first raise its benchmark federal funds rate, or the cost of overnight loans between banks. It would then cease reinvesting maturing debt from its balance sheet, reducing asset holdings in a "gradual and predictable manner."

Yellen said policy makers are in no hurry to shrink a balance sheet that has ballooned to $4.42 trillion after several rounds of asset purchases intended to hold down long-term interest rates. She said it could take to the "end of the decade" to shrink the Fed's holdings "to the lowest levels consistent with the efficient and effective implementation of policy."

Yellen emphasized that interest rates are unlikely to rise quickly as the economy continues to overcome the damage wrought by the recession.

"Even after employment and inflation are near mandate-consistent levels, economic conditions may for some time warrant keeping the target federal funds rate below levels the committee views as normal in the longer run," she said.

Unemployment in August fell to 6.1%, matching the lowest level since September 2008.

Main Rate

The Fed has said since March that its benchmark rate would stay low for a "considerable time" after it completes monthly bond buying intended to boost growth. With purchases coming to an end, officials started debating how much longer to keep the guidance.

Yellen emphasized the need to retain flexibility.

"If the economy proves to be stronger than anticipated by the committee, resulting in a more rapid convergence of employment and inflation to the FOMC's objectives, then increases in the federal funds rate are likely to occur sooner and to be more rapid than currently envisaged," she said.

On the other hand, "if economic performance disappoints, increases in the federal funds rate are likely to take place later and to be more gradual."

Job Gains

Labor-market gains have heartened Fed officials who argue for an earlier rate increase.

"If economic performance disappoints, increases in the federal funds rate are likely to take place later and to be more gradual"

Unemployment (USURTOT) in August fell to 6.1 percent, matching the lowest level since September 2008. While monthly payroll growth slowed to 142,000 in August, this year's average gain of 215,000 puts the U.S. on pace to add 2.58 million jobs for the biggest annual growth in 15 years.

Yellen said the labor market has yet to fully heal.

At 6.1 percent, unemployment "remains significantly above the level that most FOMC participants would regard as consistent with normal in the longer run, 5.2 percent to 5.5 percent," she said today.

Inflation has remained contained even as growth picks up, giving the Fed room to continue unprecedented accommodation. A report today from the Labor Department showed that the consumer price index unexpectedly dropped in August for the first time in more than a year.

Adding to the Fed's caution is concern that any move to signal an increase in interest rates risks sparking a market backlash that could endanger the five-year-old expansion.

Adding to the Fed's caution is concern that any move to signal an increase in interest rates risks sparking a market backlash

Easy monetary policy and rising corporate profits lifted the S&P 500 to 33 record closes this year. The benchmark has almost tripled from a 12-year low in March 2009 and is up 8.3 percent this year.

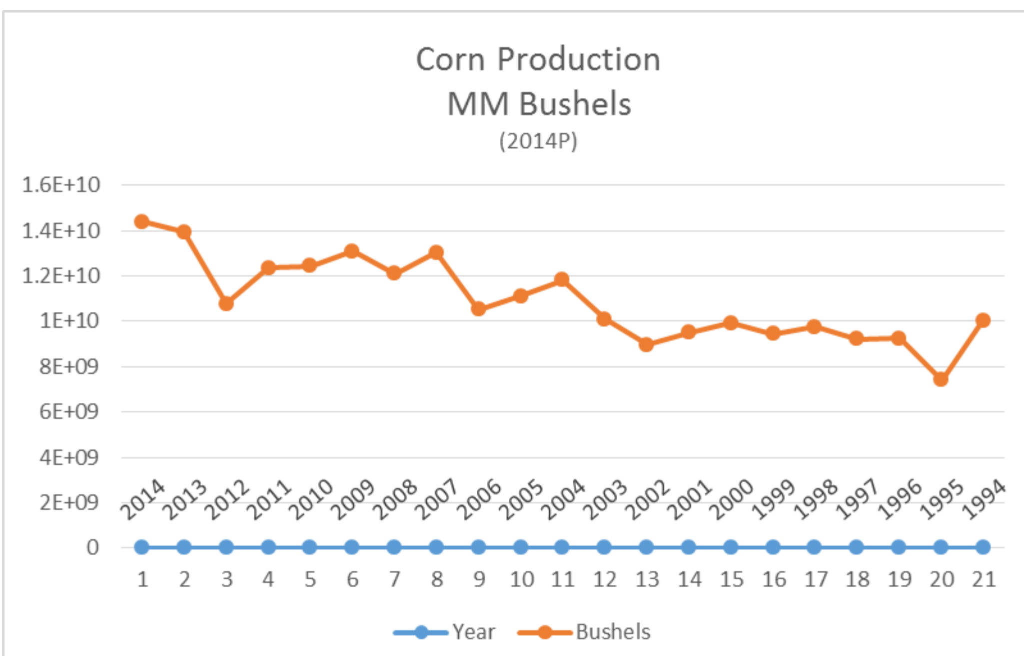
Learn more at:
http://www.bloomberg.com/news/2014-09-17/fed-keeps-considerable-time-pledge-as-growth-is-moderate-.html

The Edge

October means it's Halloween Month! Be Prepared for Corn!

Yes that's right, corn. The service ghosts and goblins have started early this past year and it looks like the service demons are going to continue into the fall of 2014 and the winter of 2015.

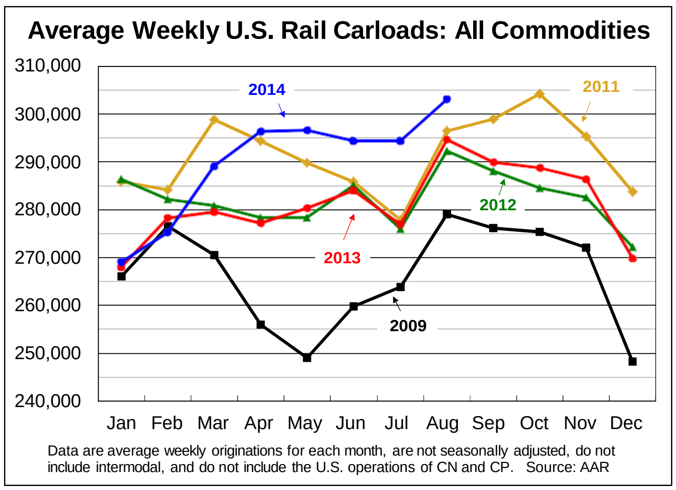
Consider the following chart and the transportation resources it will take move the corn crop to market. The rail, truck and the barge (what's not froze in later in the shipping season) transportation industries are running up against capacity constraints now with anticipated corn production at an all-time high of 14.4 million bushels up from 2013 crop year production of 13.9 million bushels transportation resources will be even more strained.



And the quality looks good as well. According to recent USDA statistics the crop is 74% in good to excellent condition when compared to the 2009 -2014 average. Albeit a little behind in maturity and harvest there is a sufficient enough amount of corn in the dented status to make the crop viable.

Corn Progress Report	21-Sep-2014	2009-2014 Avg.
Dented	90%	92%
Mature	42%	54%
Harvested	7%	15%
Condition (good to excellent)	74%	55%

I don't ship corn or any agriculture commodities so what does that have to do with me, you might ask? The average weekly U.S. Rail Carloads according to the Association of American Railroads has been trending up significantly the past five to seven months (see chart below). Corn will impact the railroads ability to meet their service requirement by putting an even more significant demand for additional rail service.



The sheer volume of carloads has created strains on the rail networks and rail operating resources that can only be overcome by longer term capital resources. Resources that the rail industry as a whole have committed to invest – but it takes time for those resources to become effective. While the shipping community is waiting for capital improvements to take effect there are a number of stop-gap measures you can implement. These may include adding private railcars, increasing your on-site rail capabilities, operationally blocking shipments to ease the switching burden on rail switch yards and managing contracts to be sure you're getting the service commitments promised.

Data sources:
http://www.usda.gov/wps/portal/usda/usdahome?navid=CROP_PRODUCTION&navtype=RT&parentnav=PRODUCERS

https://www.aar.org/StatisticsAndPublications/Pages/default.aspx

We look forward to earning your business!