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Railroad & Policy Updates

In a recent email update, CSX provided an update that it remains relentless in its commitment to deliver the high level of service customers expect. This network update, which is now being published on a monthly basis, details the company's recent service performance.

CSX NETWORK PERFORMANCE

- In August, operating performance across the CSX network remained stable. The reliability of CSX's service product continues to improve, as does performance in committed time of arrival, on-time originations, on-time arrivals and car dwell.
- While overall operations remain fluid, the company has experienced congestion at a few locations on the network, namely between Chicago and the Southeast, and between Buffalo and Philadelphia.
- Looking ahead, mainline curfews will continue on our core routes as we utilize the remainder of the construction season to complete our maintenance and capacity improvement projects. As construction activity continues and seasonal volumes increase with Fall Peak, slight transit delays may occur.

RECENT SERVICE DEVELOPMENTS

- Storm Preparations: The last few hurricane seasons have largely spared the CSX network. However, in the event of a predicted hurricane landfall, CSX takes significant precautions to protect its employees, rail traffic and infrastructure.
- SEPTA Separation: Recently, CSX and the Southeastern Pennsylvania Transportation Authority (SEPTA) completed the separation of a six-mile section of shared track. The West Trenton Separation Project allows CSX and SEPTA to implement different versions of Positive Train Control (PTC) and helps to alleviate rush hour train congestion in this area.
- PTC in Revenue Service Demonstration: The CSX PTC project achieved a pivotal milestone on Monday, August 31, as CSX began running trains with PTC in operational mode for the first time in the company's history on the Wilmington subdivision in North Carolina.

RESOURCE UPDATE

- CSX locomotive availability remains high and the average number of trains delayed due to power continues to be well below the levels seen in 2014 and early 2015.
- Trains delayed due to crew availability (measured in hours per week) in 2015 continue to track well below the levels seen throughout 2014, and are expected to further improve as we move into a period of fewer vacations.

Learn more at:
www.csx.com

Don't rely on luck – protect your locomotive investment

Mechanical Brief with Steve Christian

From the earliest days of my railroad career, I have dealt with routine inspection and maintenance of locomotives. I was in the "Car Department" officially but because it was a small point we were also given the basic locomotive inspection and servicing duties for about a dozen units. Most of these locomotives were used for branch line service and locals. They would work their way down branch lines, tying up at small towns for the night, dead head home by crew hauler and return in the morning to continue the trip. It was critical that the locomotives were trouble free during multiple days of picking up loaded cars and setting out empties (for loading) at the numerous grain elevators down the branch lines.

Since those days, I have managed several railcar shops that all used locomotives for switching. Drawing on my past experiences, I put together routine inspection and maintenance plans that were tailor made for each shop's needs and capabilities. While these programs are quite a chore to implement, they are very difficult to keep going. Initially everyone is fanatical about keeping the unit in tip top shape. Then after a while something happens that interrupts the routine. Perhaps a production supervisor corners the switch crew and says he needs cars spotted or pulled before they do anything else at the beginning of a shift. Chances are the switch crew will forego the daily inspection and maintenance that day. Then, if you don't watch it, the daily checks become weekly checks and weekly checks become monthly, etc. "Stuff" happens, I understand that, but at the earliest opportunity, the locomotive inspection and maintenance must be performed. At my shops, since the employees involved in this activity were subordinate to me, deviation from the program was very short lived. I know the consequences to the business that result from a major locomotive breakdown.

Initially everyone is fanatical about keeping the unit in tip top shape. Then after a while something happens that interrupts the routine.

Now that I no longer manage shops, my role has changed. I can (and have) put together routine inspection and maintenance programs for industrial locomotives for others. As I stated above, custom programs are quite a chore to create and implement. However, the greatest task is keeping it going for the long run. Initially, everyone is totally on board and it is smooth sailing. However, interest and attention to the program wanes over time. Since I am usually many miles away and not part of the organizational chart, I can only point out noncompliance to the plant management and remind them of the importance to get back on the program.

A recent inspection of a locomotive that I created a program for is a good example. We worked hard over a few years to bring it back from years of abuse and crisis maintenance to a dependable daily source of power for the plant. I was shocked at what was found.

1. The air compressor was hardly showing on the dip stick.
2. An inside brake shoe was worn down to the backing plate.
3. The plant switch crew complained that they had to jump start the locomotive with a welder. Upon inspection the batteries were almost dry.

We worked hard over a few years to bring it back from years of abuse and crisis maintenance to a dependable daily source of power for the plant.

In all three instances, immediate remedial action averted very costly damage. They were extremely lucky that we were there to catch those

Put together a program, train to the program, monitor its effectiveness, revise the program as needed and retrain periodically.

deficiencies! It is obvious that it is time to retrain on the locomotive inspection and maintenance program. I plan to start with management at the plant. I feel that management buy-in is the key. They have the hammer, I don't. Then after getting their attention, I will plan to retrain the switch crews.

Many industries, like the one I am referencing, only have one locomotive. Loss of that locomotive for any period of time is a huge deal and could negatively affect or even halt production at the plant. Besides that, the cost of major locomotive repairs can crush budgets and profits. All of this can be averted by routine inspections and maintenance.

Don't rely on luck. Protect your locomotive investment. Put together a program, train to the program, monitor its effectiveness, revise the program as needed and retrain periodically. As always, Tealinc stands ready to analyze your particular needs, help develop your locomotive inspection and maintenance program, train to the program and provide follow-up services as needed.

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

Carloads of miscellaneous, motor vehicles and parts, grain mill products up in August 2015.

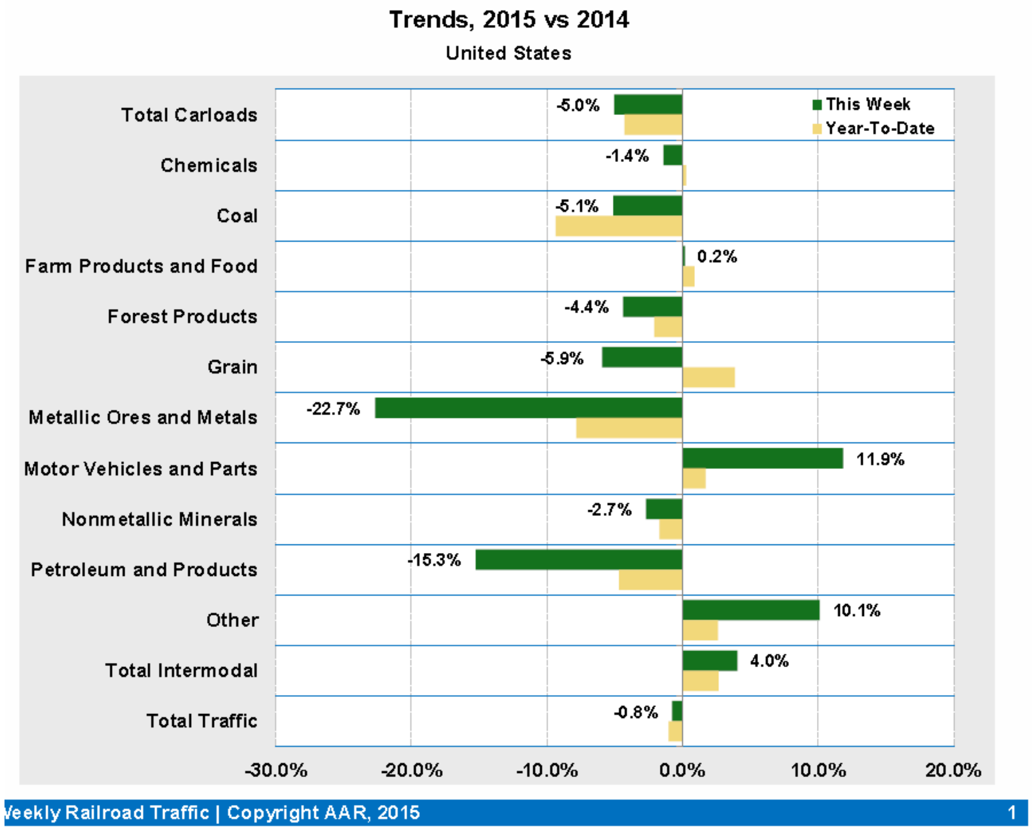
Carloads of coal, petroleum and petroleum products, and metallic ores down

The Association of American Railroads (AAR) reported [September 2, 2015] volumes for August 2015 and the first eight months of 2015.

Carload traffic in August totaled 1,155,957 carloads, down 4.6 percent or 56,104 carloads from August 2014. U.S. railroads also originated 1,114,370 containers and trailers in August 2015, up 3.6 percent or 38,617 units from the same month last year. For August 2015, combined U.S. carload and intermodal originations were 2,270,327, down 0.8 percent or 17,487 carloads and intermodal units from August 2014.

In August 2015, six of the 20 carload commodity categories tracked by the AAR each month saw carload gains compared with August 2014. This included: miscellaneous, up 28 percent or 5,870 carloads; motor vehicles and parts, up 5.1 percent or 3,460 carloads; and grain mill products, up 6.5 percent or 2,322 carloads. Commodities that saw declines in August 2015 from August 2014 included: coal, down 7.3 percent or 33,624 carloads; petroleum and petroleum products, down 13.9 percent or 9,078 carloads; and metallic ores, down 24.7 percent or 7,946 carloads. Excluding coal, carloads were down 3 percent or 22,480 carloads in August 2015 from August 2014.

Total U.S. carload traffic for the first eight months of 2015 was 9,462,936 carloads, down 4.3 percent or 423,230 carloads, while intermodal containers and trailers were 9,051,287 units, up 2.6 percent or 233,597 containers and trailers when compared to the same period in 2014. For the first eight months of 2015, total rail traffic volume in the United States was 18,514,223 carloads and intermodal units, down 1 percent or 189,633 carloads and intermodal units from the same point last year.



"August had essentially the same rail traffic pattern as the previous few months: a healthy increase for intermodal, a big decline for coal, continued weakness in a variety of energy-related commodities, and strength in some other carload segments"

"August had essentially the same rail traffic pattern as the previous few months: a healthy increase for intermodal, a big decline for coal, continued weakness in a variety of energy-related commodities, and strength in some other carload segments," said AAR Senior Vice President Policy and Economics John T. Gray. "Railroads are a derived-demand industry, meaning that demand for rail service is a function of demand downstream for the products railroads haul. We're optimistic that the economy will continue to grow. Demand for rail service should continue to grow with it."

Article at and chart at : **https://www.aar.org/newsandevents/Press-Releases/Pages/2015-09-02-railtraffic.aspx** and **https://www.aar.org/newsandevents/Freight-Rail-Traffic/Documents/2015-09-02-railtraffic.pdf**

Industrial Inside

Big carry-outs as farmers head into new crop season

Old-crop stocks of corn, soybeans, and wheat are substantially larger than a year ago, which will add significantly to new-crop supplies, according to USDA's quarterly Grain Stocks report released [September 30, 2015].

"The report is friendly to the wheat market, but it's hard to say it is bullish," said Randy Martinson, commodity broker and manager of Progressive Ag Marketing, in Fargo, N.D. Martinson was the commentator on an MGEX post-report press conference. "The report is negative to corn and slightly negative to soybeans as well."

Old-crop corn stocks as of September 1 were 1.73 billion bushels, up 41% from the same quarter last year, which was close to the pre-report trade estimate of 1.74 billion bushels. Of total corn stocks, 593 million bushels

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were stored on farms, up 28% from a year earlier, and 1.14 billion bushels were stored off-farm, up 48% from a year ago.

"We knew stocks would be building. The key number to me is that there is more building in off-farm stocks than on-farm," said Chad Hart, agricultural economist at Iowa State University. "Farmers are clearing out stocks to make way for harvest."

The June through August indicated disappearance of 2.72 billion bushels was up from the year-ago comparable quarter of 2.62 billion bushels, according to USDA calculations.

"That's really strong disappearance—100 million bushels more than last year—but we could still have downward price pressure," said Hart. "Stocks have built and we still have harvest supplies coming in."

Old-crop soybean stocks as of September 1 of 191 million bushels were 108% larger than a year ago, but 14 million bushels lower than pre-report trade expectations. Soybean stocks stored on farms are 49.7 million bushels, up 133% from a year ago. Off-farm stocks of 142 million bushels are 101% larger than last September.

Indicated disappearance for soybeans for the June through August period is 436 million bushels, or 39% more than the same period a year ago.

"Corn and soybean prices are destined to see a little more pressure," said Martinson, due to the continued quick pace of harvest and higher-than-anticipated yields in some areas.

All-wheat stocks as of September 1 of 2.09 billion bushels are 10% larger than a year ago. USDA's estimate for on-farm wheat stocks of 647 million bushels are down 9% from last September. Off-farm stocks of 1.44 billion bushels, however, are 21% larger than a year ago.

The June through August indicated disappearance for wheat of 716 million bushels is 1% larger than the same period a year earlier.

Martinson expected wheat prices to stabilize then start to recover, providing wheat producers an opportunity to market their remaining stocks, probably sometime in the next six weeks.

"The world is awash in wheat," said Martinson. "But next year there could be some problems in Australia and Ukraine due to dryness, and if the world economy struggles, people could turn to wheat as a cheaper protein source"

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Read the entire article at:
http://www.agweb.com/article/big-carryouts-as-farmers-head-into-new-crop-season-NAA-fran-howard/

Financial Focus

Following the conclusion of a closely watched meeting, the Federal Reserve

Fed holds rates unchanged amid low inflation, financial tumult

is keeping interest rates at record lows, citing a weak global economy, low inflation and instability in financial markets.

"Recent global economic and financial developments may restrain economic activity somewhat and are likely to put further downward pressure on inflation in the near term," the FOMC said in a statement released at the conclusion of its latest two-day meeting [in September 2015].

In a press conference following the statement's release, Fed Chair Janet Yellen said "the situation abroad bears close watching," an acknowledgement of the recent flare up of volatility in global markets, such as in China.

The Fed noted that the U.S. economy continues to expand at a moderate pace and that inflation expectations have been muted.

There has been debate recently over how closely the Fed is watching foreign developments, particularly after Vice Chairman Stanley Fischer in August said, "the Fed's statutory objectives are defined in terms of economic goals for the economy of the United States, but I believe that by meeting those objectives, and so maintaining a stable and strong macroeconomic environment at home, we will be best serving the global economy as well."

Betsey Stevenson, a former Chief Economist at the Labor Department who is now at the University of Michigan, tweeted that she believes the Fed made the right call.

The Fed noted that the U.S. economy continues to expand at a moderate pace and that inflation expectations have been muted. It said the housing sector has shown further improvement. It also noted improvements in the labor market saying "on balance, labor market indicators show that underutilization of labor resources has diminished since early this year."

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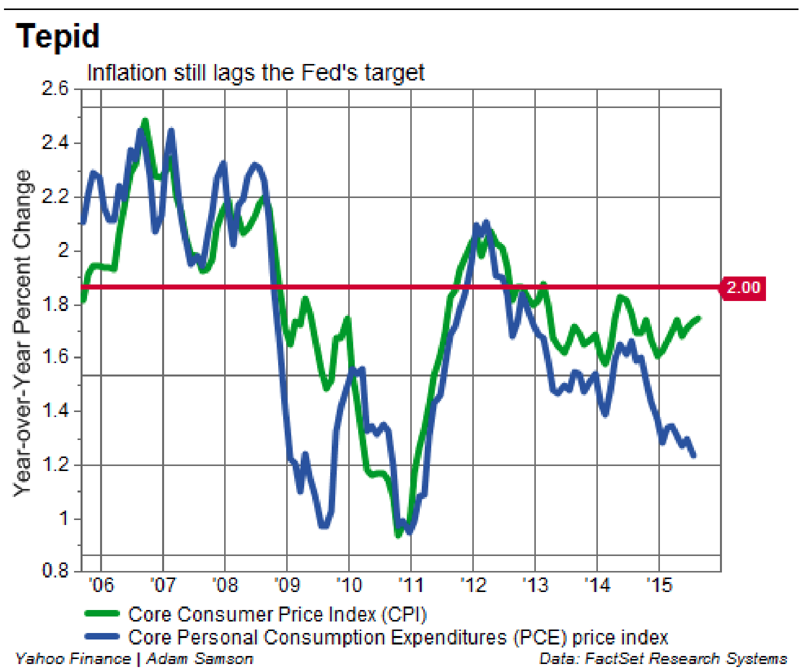

U.S. Treasury bonds rallied after the Fed announcement. The 2-year yield was the standout, plunging 11%, or 0.089 percentage point, to 0.722%.

The Fed's median projection for core PCE inflation of 1.4% this year, rising to 2.0 by 2018

Bond yields move in the opposite direction of prices.

Meanwhile, U.S. markets fluctuated after the news, with financial stocks taking a hit. And futures traders are pricing in a 28% probability that the Fed could hike rates next month and a 60% likelihood that the Fed will wait until January to increase interest rates from the zero bound they have hovered at since 2008, according to Bloomberg.

The Fed also upgraded its median GDP projections for 2015 but lowered estimates for 2016 and 2017. The Fed now is expecting median GDP growth of 2.1% for 2015, 2.3% for 2016 and 2.2%in 2017. It is expecting unemployment to decline to 4.8% by 2016, slightly lower than it had projected in June.

The Fed's median projection for core PCE inflation of 1.4% this year, rising to 2.0 by 2018.

The Fed's latest dot plot also showed a surprise: that one committee member is expecting the key federal funds rate to turn negative.

http://finance.yahoo.com/news/breaking-news--fed-announcement-on-interest-rates-154848233.html

The Edge

Check Your Bills, Audit Them and Stay Persistent

Sometimes we're lead to believe that the larger the organization the more infallible the billing system they possess and the easier the discovery process is to identify when you need to contest a bill be it a freight bill, demurrage bill or any other bill for that matter. Albeit the large organization billing system is good for a large organization its worth conducting audits to be sure you're not overpaying. Following is an example of a chaotic freight bill settlement.

May 20, 2015. Receive freight bill for a railcar commodity movement (freight bill) that has nothing to do with the railcar listed since we (Tealinc) own the railcar in question and it's off hauling commodities in a different part of the country. Note to self: It's physically impossible for our railcar to be part of the said movement for which we've received freight bill so it must be either a prior railcar number or simply a typo somewhere in the process.

May 22, 2015. Dispute bill online at railroad website (as instructed on freight bill) showing trace report for our railcar purported to be hauling someone else's freight. Following the dispute, we move on.

July 8, 2015. Receive a "nasty-gram" (☺) from railroad that the freight bill is overdue and we will be sent to collections unless paid immediately! Along with the bill is a contact person so we make contact with the contact person. She advises that we follow instruction on the freight bill and file dispute via website.

July 9, 2015. Per direction above, we follow same procedure as previously done on May 22, 2015 and we move on… again.

August 11, 2015. We receive another "nasty-gram" from railroad on this time they're irate. We're really overdue now and it's getting serious. We call and email railroad representative… again. The representative hasn't seen the online claim… "But will check." Seriously?

August 12, 2015. We research the railcars previous history and find that it's running under a previous railcar mark and our railcar mark. Looks like the railroad didn't download current UMLER? To be honest, we're not sure what they've done (or not done). We contact the previous railcar mark owner and they've put the previous mark on another railcar and registered it. All records show that they've transferred the previous railcar mark in UMLER via Railinc. We think it's kind of a funky way to do it but we understand their rational and it works. It's a completely different railcar type as well so should be pretty straight forward that our railcar isn't suited for the commodity being hauled (it's really hard to put lumber in a covered hopper railcar!) Previous railcar mark owner acknowledges the freight bill is theirs and asks for the railroad contact. We put the railroad representative in contact with previous railcar mark owner and after a string of emails between them, they seem to have it resolved. Previous railcar mark owner has been told to file acknowledgement of freight bill online. We're told they did that so it should be settled and we move on… again… for a third time!

September 22, 2015. We receive a toned down "nasty gram" from railroad that the bill is still outstanding and we need to figure out how to get it paid. We initiate previous mark owner and railroad representative three way call. Previous mark owner says they followed the instructions on the website and the railroad representative… she says "I haven't seen them yet". Wow! Previous car mark owner sends a screen shots to railroad representative who acknowledges receipt. Looks like we're off the hook for now…. ***can we move on?***

September 28, 2015. Write short article about for Tealinc newsletter. Haven't quite moved on yet and we have filed all correspondence for future dispute.

This is one example of several that we've been involved directly or indirectly. We can tell you from experience don't skip the audit process for any kind of freight, demurrage or accessorial bill unless you want to leave money on the table. Even in a case like this where things should be simple, diligently managing the details and our persistent with the railroad disputing this bill instead of giving in has saved us money.

We look forward to earning your business!