



Specializing in Rail Transportation Solutions

We are a railcar and locomotive operating lessor, broker, rail consultant and transportation manager with a tactical and boutique approach to providing rail transportation solutions.

In This Issue

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

Visit us at:

www.tealinc.com

Tealinc Touchbase Newsletter – October 2017

Message from Tealinc:

From all of us at Tealinc, our thoughts, prayers and well wishes are with those of you who are deeply impacted by the recent surge of hurricanes, tropical storms, flooding, tornadoes and wildfires. During your time of need, we understand you will require support in clean up and rebuilding efforts. To support you, Tealinc has extended our offer to use our open top hopper aggregate railcars rent free for a limited time to support any disaster relief and recovery.



Please [contact Tealinc](#) for more information.

Railroad & Policy Updates

STB: “We want more collaboration”

STB is looking to revisit and modify its longstanding rules on ex parte communications in informal rulemaking proceeding

The Surface Transportation Board (STB) is looking to revisit and modify its longstanding rules on ex parte* communications in informal rulemaking proceedings, which up until recently have mostly been prohibited. [Note: *Ex parte means “with respect to or in the interests of one side only or of an interested outside party.” It is a Latin legal term meaning “from (by or for) [the/a] party.” An ex parte decision is one decided by a judge without requiring all of the parties to the controversy to be present. Ex parte matters are usually temporary orders (like a restraining order or temporary custody) pending a formal hearing or an emergency request for a continuance. Most jurisdictions require at least a diligent attempt to contact the other party’s lawyer of the time and place of any ex parte hearing.]

STB has issued a Notice of Proposed Rulemaking (NPRM) to allow ex parte



Railcar & Locomotive Leasing and Brokerage



Project Management



Transportation Consulting

Tealinc, Ltd. | 1606 Rosebud Creek Road | Forsyth, MT 59327

Specializing in Rail Transportation Solutions for Customers in North America and Around the World

www.tealinc.com



Specializing in Rail Transportation Solutions

We are a railcar and locomotive operating lessor, broker, rail consultant and transportation manager with a tactical and boutique approach to providing rail transportation solutions.

The proposal makes several changes to the Board’s rules “designed to encourage dialogue with stakeholders...”

An ex parte decision is one decided by the judge without requiring all parties to the controversy to be present

communications, subject to disclosure requirements, and “to make other clarifications as to when and how interested persons may communicate with the Board about other pending proceedings.”

STB notes, “In two recent rulemaking proceedings, the Board has waived its rules on ex parte communications to allow individual Board members or Board staff to participate in one-on-one meetings, subject to public disclosure requirements. The Board has found these meetings useful, and has recognized that significant benefits flow from direct and candid discussions with stakeholders. More generally, many federal agencies now have regulations and policies facilitating direct interaction with stakeholders on regulatory matters. The Board believes that it is appropriate to revisit and modify its longstanding rules on ex parte communications, which, in the past, have largely been prohibited.”

The proposal makes several changes to the Board’s rules “designed to encourage dialogue with stakeholders. For example, the rules would permit ex parte communications in rulemaking proceedings up until the Board issues an NPRM. And, after the issuance of an NPRM, ex parte communications would be allowed until 20 days before reply comments are due, subject to public disclosure requirements. Additionally, the proposed rules clarify that certain other communications, such as interaction related to the Board’s implementation of the National Environmental Policy Act, do not constitute ex parte communications.”

The Board’s Notice of Proposed Rulemaking in Ex Parte Communications in Informal Rulemaking Proceedings, EP 739 may be downloaded at the link below. Comments are due by Nov. 1, 2017. Replies are due by Nov. 16, 2017.

Read the entire article:

<http://www.railwayage.com/index.php/regulatory/stb-seeks-departure-from-ex-parte-rules.html>



Railcar & Locomotive Leasing and Brokerage



Project Management



Transportation Consulting

Tealinc, Ltd. | 1606 Rosebud Creek Road | Forsyth, MT 59327
Specializing in Rail Transportation Solutions for Customers in North America and Around the World

www.tealinc.com



Specializing in Rail Transportation Solutions

We are a railcar and locomotive operating lessor, broker, rail consultant and transportation manager with a tactical and boutique approach to providing rail transportation solutions.

Challenges to railcar maintenance: considering a preventative maintenance program over a full service lease

When cars are difficult to capture for inspection and preventative maintenance

Mechanical Brief with Steve Christian

As a “boutique” leasing company we get involved in a variety of challenges when it comes to maintenance of the Tealinc Lease Fleet. By standard practice, Tealinc does not offer full service lease options as we believe that when a customer participates in and is committed to a preventative maintenance program, the customer can save their company thousands of dollars in maintenance fees. As an alternative, Tealinc offers a Rolling Stock Management Program whereby Tealinc assists in developing and managing a preventative railcar maintenance program for our customers. We do our best to adapt railcar maintenance requirements to each customer’s particular circumstances. As the result, Tealinc is tasked with customizing how maintenance is performed for each customer. To do so, we consider the commodity hauled, miles run each year, route, serving railroad, contract shops on route, availability of local contractors to perform on-site work, available track space for work at origin or destination and the customer’s unique needs and requirements.

I believe our experiences may provide assistance to your team as you look at maintaining your own railcar fleet and so in this months’ Mechanical Brief, I highlight how Tealinc custom fits and adapts maintenance activities to meet each customer’s situation.

The first group of cars that I would like to discuss runs hard all year long all over North America. There are few, if any, opportunities to capture these cars for inspection, let alone preventive maintenance. To complicate the matter, these railcars are in high demand and short supply which makes for a very challenging situation for maintenance. The customer needs them moving and is very resistant to getting them shopped regularly. In this case, we can only route cars to contract shops after the railroad creates an incident in DDCT (Damaged and Defective Car Tracing) per AAR Field Manual Rule 115. When they are at shop, we ask the contract shop to take truck and wheel readings as well as perform a comprehensive inspection of the cars with an eye to PM (Preventive Maintenance). We get as



Railcar & Locomotive Leasing and Brokerage



Project Management



Transportation Consulting

Tealinc, Ltd. | 1606 Rosebud Creek Road | Forsyth, MT 59327
Specializing in Rail Transportation Solutions for Customers in North America and Around the World

www.tealinc.com



Specializing in Rail Transportation Solutions

We are a railcar and locomotive operating lessor, broker, rail consultant and transportation manager with a tactical and boutique approach to providing rail transportation solutions.

Cars that move in the same route to the same unloading site and remain for a long period of time

much work done as we possibly can while at the shop to keep the car out running for the longest possible time.

The second group of cars I would also like to discuss is also in high demand and very short supply. However, in contrast the first group of cars, they move on the same route to the same unloading site where they remain for an extended period of time before they are unloaded. The customer is not only using the cars for movement of the commodity but also using them for on-site commodity storage. In this case, we take a similar stance to the hard-running cars where we use the DDCT system as our opportunity to get a look at the cars at a contract shop and have PM work performed. This actually works quite well as we have a designated contract shop close to the unloading site.

Cars that run seasonally (spring to fall) and stored in the winter provide an opportunity for Stakeholders to analyze how to improve their operation

The third set of cars is strictly seasonally run. They go non-stop from spring to fall on the same route continually and then are stored over the winter. We have taken this opportunity to bring together all stakeholders in the operation of these cars to determine how they performed and what would make their operation better. By all stakeholders I mean the loaders, unloaders, serving railroad, maintenance provider and Tealinc. We meet at the storage track and walk around all of the cars with the aim of charting the course for working the cars over the winter while they are idle.

Mobile contractors are a great option for cars needing maintenance that run year-round making numerous trips to factories

The last group of cars that I will discuss is particularly challenging. They run year-round on a Class I railroad but run the hardest from fall through early spring to three different factories. There is only one contract shop on route and running blocks of cars to the shop is a hit and miss proposition. Actually, more misses than hits thanks to the Class I! Even cars with DDCT incidents are a challenge to get to shop. We ended up finding a mobile contractor for much of the work at one of the factories and using the contract shop for more extensive work. This seems to be getting us the necessary coverage for now.

While these challenging situations are working for now, we can't rest on our laurels. We are always looking for improvements wherever we can find them and



Railcar & Locomotive Leasing and Brokerage



Project Management



Transportation Consulting

Tealinc, Ltd. | 1606 Rosebud Creek Road | Forsyth, MT 59327

Specializing in Rail Transportation Solutions for Customers in North America and Around the World

www.tealinc.com



Specializing in Rail Transportation Solutions

We are a railcar and locomotive operating lessor, broker, rail consultant and transportation manager with a tactical and boutique approach to providing rail transportation solutions.

Tealinc is a 'boutique' leasing company who can assist with any challenging rail situation

We'll appreciate your call!

U.S. carloads down 2.3 percent September 2017 compared to September 2016

will make changes are required. We have to; it is part of what we offer as a "boutique" leasing company, what sets our Rolling Stock Management Agreement apart from a net lease or full service lease and what creates true value for our customers.

As always, Tealinc stands ready to employ our many years of experience and our varied talents in the railroad industry to work for you. To learn more about our Rolling Stock Management Agreement or inquire about how Tealinc can help you develop a preventative maintenance program that fits your private railcar fleet, call on us. We'll appreciate your call!

Steve Christian is the Manager Value Creation-Railcar Performance Manager 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

The Association of American Railroads (AAR) today [October 4, 2017] reported U.S. rail traffic for the week ending September 30, 2017, as well as volumes for September 2017.

U.S. railroads originated 1,044,563 carloads in September 2017, down 2.3 percent, or -24,106 carloads, from September 2016. U.S. railroads also originated 1,080,444 containers and trailers in September 2017, up 3.8 percent, or 39,482 units, from the same month last year. Combined U.S. carload and intermodal originations in September 2017 were 2,125,007, up 0.7 percent, or 15,376 carloads and intermodal units from September 2016.

In September 2017, eight of the 20 carload commodity categories tracked by the AAR each month saw carload gains compared with September 2016. These included: crushed stone, sand & gravel, up 8,845 carloads or 9.3 percent; primary metal products, up 3,877 carloads or 11.8 percent; and metallic ores, up 3,163



Railcar & Locomotive Leasing and Brokerage



Project Management



Transportation Consulting

Tealinc, Ltd. | 1606 Rosebud Creek Road | Forsyth, MT 59327
Specializing in Rail Transportation Solutions for Customers in North America and Around the World

www.tealinc.com



Specializing in Rail Transportation Solutions

We are a railcar and locomotive operating lessor, broker, rail consultant and transportation manager with a tactical and boutique approach to providing rail transportation solutions.

Crushed stone, sand & gravel, metal products and metallic ores experienced a gain from September 2016 to September 2017

“The last two weeks of September were the top two intermodal weeks in history for U.S. and Canadian railroads” -John T. Gray

Intermodal rail traffic up 1.9 percent compared to the same week last year

Oil could soon overtake its 2017 highs, strategist says

carloads or 13.6 percent. Commodities that saw declines in September 2017 from September 2016 included: grain, down 16,329 carloads or 16.7 percent; petroleum & petroleum products, down 7,267 carloads or 17.0 percent; and motor vehicles & parts, down 7,203 carloads or 9.8 percent.

“As our economy and population grow, consumer spending will grow too, and intermodal will continue to be the best way to get many goods to consumers,” said AAR Senior Vice President John T. Gray. “The last two weeks of September were the top two intermodal weeks in history for U.S. and Canadian railroads. We’re confident that the tremendous efforts railroads have been expending in recent years to improve service and enhance capacity will translate into continued intermodal gains.”

Excluding coal, carloads were down 21,257 carloads, or 3.0 percent, in September 2017 from September 2016. Excluding coal and grain, carloads were down 4,928 carloads, or 0.8 percent.

Total U.S. carload traffic for the first nine months of 2017 was 10,106,660 carloads, up 3.8 percent, or 369,322 carloads, from the same period last year; and 10,432,552 intermodal units, up 3.5 percent, or 348,784 containers and trailers, from last year.

Total combined U.S. traffic for the first 39 weeks of 2017 was 20,539,212 carloads and intermodal units, an increase of 3.6 percent compared to last year.

Visit the AAR to learn more at:

<https://www.aar.org/newsandevents/Press-Releases/Pages/2017-10-04-railtraffic.aspx>

Industrial Inside

Crude oil is on pace to wrap up a strong September, having gained a little over 9 percent month to date.

Some see further gains ahead as much of the commodity's losses have been



Railcar & Locomotive Leasing and Brokerage



Project Management



Transportation Consulting

Tealinc, Ltd. | 1606 Rosebud Creek Road | Forsyth, MT 59327

Specializing in Rail Transportation Solutions for Customers in North America and Around the World

www.tealinc.com



Specializing in Rail Transportation Solutions

We are a railcar and locomotive operating lessor, broker, rail consultant and transportation manager with a tactical and boutique approach to providing rail transportation solutions.

Due to production cuts and demand, oil could head up its 2017 high, just above \$55 barrel by year end

Crude oil has not traded at \$60 barrel since mid-2015

recouped.

"Investors have really gained confidence in oil, after the OPEC cuts that were originally discussed earlier in the year are starting to take shape here, and oil production is being curbed," Phil Streible, senior market strategist at RJO Futures, said Thursday on CNBC's "Trading Nation."

Further fueling the commodity's recent upside is the International Energy Agency having upped its demand outlook for the end of this year and into 2018, Streible said.

Due to this combination of production cuts and growing demand, oil could head up to its 2017 high, just above \$55, or even \$60 per barrel by year-end. A global supply glut has plagued the market for several years, and OPEC member countries and non-member producers have vowed to implement cuts to curb such oversupply.

His forecasts would imply between 7 percent and 16 percent of upside from current levels; crude oil has not traded at \$60 per barrel since mid-2015.

At this point, traders should seek to remain long the oil market above \$50 per barrel of West Texas Intermediate crude oil, Streible said.

"If we got a two-day consecutive close below the \$50 level, use risk management. Take the position off. Otherwise, it could be a nice wild ride back to the upside, and we may even see \$60 by year-end," he said, if economic data continues to be supportive.

WTI crude oil settled about 1 percent lower on Thursday [September 28, 2017], at \$51.56 per barrel, slightly below its five-month highs.



Railcar & Locomotive Leasing and Brokerage



Project Management



Transportation Consulting

Tealinc, Ltd. | 1606 Rosebud Creek Road | Forsyth, MT 59327
Specializing in Rail Transportation Solutions for Customers in North America and Around the World

www.tealinc.com



Specializing in Rail Transportation Solutions

We are a railcar and locomotive operating lessor, broker, rail consultant and transportation manager with a tactical and boutique approach to providing rail transportation solutions.

Bond yields jump on speculation about the next Fed chair

"The key factor that the market is focusing on is he would be less accommodative than Yellen has been as a baseline in terms of QE [quantitative easing], the path of tapering and the potential path of rate hikes."-Aaron Kohli

Yellen is very vocal about the Fed's regulation of the financial industry and Trump would like to see some regulation loosened

Read the entire article at:

<https://www.cnbc.com/2017/09/28/oil-could-soon-overtake-its-2017-highs-strategist-says.html>

Financial Focus

Treasury yields rose suddenly on reports that Kevin Warsh, a former Fed governor, met with President Donald Trump on Thursday [September 28, 2017] to discuss his potential nomination as Fed chair.

Warsh has increasingly been seen as a leading candidate to replace Fed Chair Janet Yellen, and bond traders view him as a hawkish choice. The PredictIt probability market gave him odds of over 40 percent, well ahead of Yellen.

The 2-year note yield (**US2Y**) edged slightly higher to 1.4787 percent after the report from the Wall Street Journal. CNBC later confirmed the meeting took place. The 10-year yield (**US10Y**) rose to 2.32 percent.

"The key factor that the market is focusing on is he would be less accommodative than Yellen has been as a baseline in terms of QE [quantitative easing], the path of tapering and the potential path of rate hikes. All of that should be reconsidered if Warsh is a serious candidate and it sounds like he is," said Aaron Kohli, director fixed income strategy at BMO.

Administration officials have said that Yellen and others were under consideration for the chairmanship. Yellen's term ends in February, and Trump has made favorable comments about her.

However, analysts note that Yellen is very vocal about the Fed's regulation of the financial industry and Trump would like to see some regulation loosened. Warsh, who has a Wall Street and government background, would be seen as someone who would be more interested in deregulation. His father-in-law, Ronald Lauer is



Railcar & Locomotive
Leasing and Brokerage



Project Management



Transportation
Consulting

Tealinc, Ltd. | 1606 Rosebud Creek Road | Forsyth, MT 59327

Specializing in Rail Transportation Solutions for Customers in North America and Around the World

www.tealinc.com



Specializing in Rail Transportation Solutions

We are a railcar and locomotive operating lessor, broker, rail consultant and transportation manager with a tactical and boutique approach to providing rail transportation solutions.

"It becomes muddier because most people that sit in that seat have to moderate their views based on reality, and the reality is that inflation isn't moving," – Aaron Kohli, BMO

also a close associate of Trump.

But the dilemma for Trump, who has said he likes low interest rates, is that the candidates who are more likely to push more lax regulation are those that might move faster to normalize rates.

"It becomes muddier because most people that sit in that seat have to moderate their views based on reality, and the reality is that inflation isn't moving," said Kohli. "As much as we believe he would taper aggressively, and raise rates aggressively, it might not come to that."

Kohli said the long end of the curve may not see rates rise that much if Warsh is a serious contender because the market would view a quicker move to reduce the Fed's balance sheet, through tapering bond purchases, or to raise interest rates could slow economic growth.

Learn more at:

<http://www.msn.com/en-us/money/markets/bond-yields-jump-on-speculation-about-the-next-fed-chair/ar-AA5CsI8?ocid=spartanntp>

The Edge

... with Darell Luther

It's October and Halloween are the highlights at our house. My wife decorates everything (yes everything) and my youngest daughter has talked her grandparents out of 25 pumpkins so she can decorate and sell them to raise money for Halloween costumes for a Children' shelter here in Montana. The ghouls, goblins and pumpkins are doing fine in our neighborhood!

It seems as though the ghouls and goblins are just as prevalent in the rail industry. This month in The Edge, I look at AAR railcar loading statistics where the ghouls and goblins are on active duty and at Railcar values which holds a real-life trick or treat approach to railcar valuations and I finish up with a review of some of the projects we're working on trying to take the trick out of the rail business and install a bit more of the treat.



Railcar & Locomotive Leasing and Brokerage



Project Management



Transportation Consulting

Tealinc, Ltd. | 1606 Rosebud Creek Road | Forsyth, MT 59327

Specializing in Rail Transportation Solutions for Customers in North America and Around the World

www.tealinc.com



Specializing in Rail Transportation Solutions

We are a railcar and locomotive operating lessor, broker, rail consultant and transportation manager with a tactical and boutique approach to providing rail transportation solutions.

AAR Railcar Loading Statistics

Railroad statistics continue to show the impact the energy business has had on rail transportation. Year to day through August, total US carloads for 2017 are 9,062,097 with 6,099,472 US carloads accounted for when you back out coal. Compare that to 8,668,669 for 2016 and 9,750,022 for 2015 US carloads YTD thru August and one can see that we've recovered some but not a lot. Now back out coal and you'll find that 2016 US carloads excluding coal are 6,071,850 for 2016 and 6,201,599 for 2015 YTD thru August. Particularly hard hit are tank car originations for crude oil due to lower production and competition from pipelines. General service freight including grain, steel, scrap, aggregates and various other commodities have gained roughly 28,000 carloads over 2016 loadings or less than 0.05% although recent grain loading numbers have fallen off significantly in the last few months.

Railcars in storage as of September 1, 2017 number some 323,969. That's roughly 20% of the 1.6 million general service freight cars in North America. The leading car type in storage are tank cars for hauling chemicals, petroleum and food products at 114,827 representing 28% of the overall tank car fleet and 35% of all stored railcars. Covered hoppers for grain, chemicals and nonmetallic minerals have roughly 92,000 railcars stored representing 17% of the overall covered hopper fleet and 29% of all stored railcars. Coal hoppers, rapids and gondolas continue to show strong storage counts with numbers in the 20,000 plus category.

It's interesting to note that the slight uptick in coal originations has pulled quite a few coal cars back into service, probably more that current service requires unless of course you're on the CSX. It's better to run cars in service than pay storage on them. Conversely the absolute number of coal cars seems to be getting reconciled a bit closer to demand as we see a strong sales market for replacement of steel cars being cascaded into alternative services.

Railcar Values

There's nothing like the current market to test residual values of good used railcars that are off lease looking for a new home. The lack of strong demand supported by low scrap prices and mediocre bulk commodity projections has lead this market to test new residual values for off lease railcars. Conversely if you have a portfolio of good newer used railcars under lease with good credit risk for sale there's a lot of aggressive purchases being made. The long-term stability of investing in railcars, even in times of recovery, continue to be great institutional, insurance, foreign and bank led investments. The Fed's rate continues to



Railcar & Locomotive
Leasing and Brokerage



Project Management



Transportation
Consulting

Tealinc, Ltd. | 1606 Rosebud Creek Road | Forsyth, MT 59327
Specializing in Rail Transportation Solutions for Customers in North America and Around the World

www.tealinc.com



Specializing in Rail Transportation Solutions

We are a railcar and locomotive operating lessor, broker, rail consultant and transportation manager with a tactical and boutique approach to providing rail transportation solutions.

be reasonable and many companies benchmark to the rate in calculating their returns. Having a strong base of assets that can be written off the books over 7-year MACRS also helps those with strong cash flow looking for some depreciation.

Project Examples

We're working on several projects in the US and Canada at this time. About half are centered on growth of business volumes and in many cases conversion of truck load business to extend our clients reach or increase their volume requiring a shift in mode of transportation. These projects are all fairly complex particularly when one has to build sidings and track infrastructure at both the origin and destination, accurately predict shipment volumes, procure funds internally to invest in the future, understand railroad logistics all the while negotiating with railroads for reasonable rates that help support such large investments.

We're also working on a few projects where we take our railcar maintenance modeling ability coupled with our in-house expertise (see Mechanical Brief with Steve Christian) and develop railcar maintenance best practices. The result is a management report dashboard coupled with a series of executable goals that ties everyone from the rip-track to the head logistics person to the same goals and objectives.

Most companies can use a helping hand or a little subject matter expertise when undertaking such projects and we'd certainly be glad to discuss your project with you to provide some guidance.

We look forward to earning your business!

Tealinc, Ltd. is dedicated to creating value for our customers. We specialize in Rail Transportation Solutions by buying, selling, leasing, consulting and managing rolling stock fleets and locomotive assets with our customers' long term and short-term requirements in mind. We participate in nearly every industry supported by rail; sell, lease and purchase nearly every type of freight railcar, and provide management and consulting services to both novice and experienced rail shippers.



Railcar & Locomotive
Leasing and Brokerage



Project Management



Transportation
Consulting

Tealinc, Ltd. | 1606 Rosebud Creek Road | Forsyth, MT 59327
Specializing in Rail Transportation Solutions for Customers in North America and Around the World

www.tealinc.com