



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 Touchbase Newsletter –October 2018

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Tealinc has open top hoppers available for sale or lease!

Tealinc is looking to buy your idle railcars!

Planning ahead is vital to successfully running an effective railroad

Tealinc Equipment

Looking to add railcars to your fleet? Tealinc has a wide range of railcars available for lease and sale. Our **4000 cube, steel bodied, rapid discharge cars** allow for easy loading and unloading of product.



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Looking to downsize your fleet? Tealinc is actively looking to purchase your idle rail equipment assets. Send [Tealinc](#) your equipment listings today!

The Edge with Darell Luther



Making news recently is the Union Pacific Railroad announcement that they are going to undertake pieces of the Precision Railroading Model. The push comes from Wall Street and the like putting steadily increasing profits over the fine balance of making money and serving customers. The model used at the Canadian National



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Weekly railcar loadings in 2018 continue to improve compared to the last 3 years

Running a lean and mean railroad requires the use of required resources absolutely needed

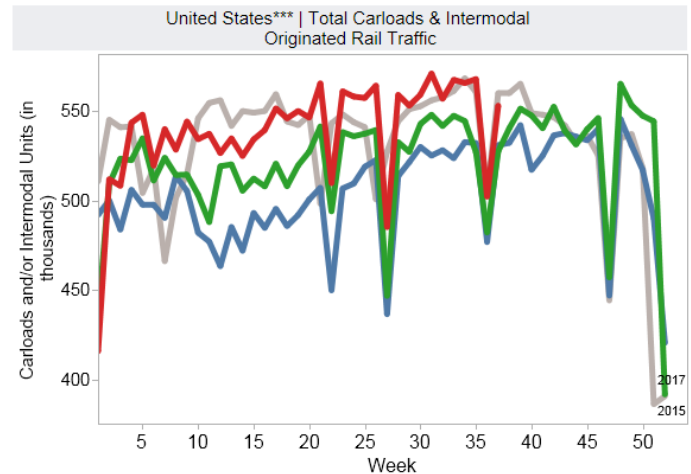
Plan for at least 6 months of operating time for a crew to be

and Canadian Pacific and now still being implemented at the CSX seems to be the ticket to great earnings that appear to be sustainable. If you are a customer though plan on some long arduous uphill growing pains. In the long run, better run railroads are good for everybody. In the short term it's a painful experience. Plan Ahead!

Weekly railcar loadings in the United States continue to track historically better than last year and 2016/2015 respectively. See graph for total carloads and intermodal originated rail traffic.

Service is the name of the game this past year. When one looks at the resources required to run a railroad it's summed up (ok this is over simplified) as track capacity and then basic operating resources which are comprised of locomotives and crews. In the quest for respectful operating ratios a railroad doesn't want to have any more of either resource

than it absolutely needs. A good sensible way to run a business lean and mean; however, the dilemma comes when you see spikes and valleys (see graph above) and determining a methodology that allows you to be sure you've got just the right amount of operating resources without having too many or too few at just the right time. Both sets of operating resources, trained crewmen and locomotives take a bit of effort to effectively put in place.



* Canadian traffic includes the U.S. operations of Canadian railroads.



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**reasonably and safely
competent**

**Locomotives under
short term
arrangements are often
the most expensive
alternative**

**Service problems have
led to a heightened
interest in Tealinc's
Rolling Stock
Management
Business- [Find out
more information on
our RSMA business](#)**

When I was “railroading” we estimated it would take at least six months of operating time for a crew to be reasonably and safely competent. So if you’re short on crews you’re already six months behind. Also consider that when crews were furloughed or laid off in the bad times many of them found jobs outside of the rail industry and weren’t available for rehire when times were better. The economy is rather strong right now and that’s a good indicator that qualified job candidates may be difficult to find.

Power (locomotives) should be easier to find since there are a bunch of them parked right now. I’m sure the railroads have power by the hour and other arrangements of use in place to allow short term usage; however, use of these locomotives under short term arrangements are often the most expensive alternative available. So, if you’re watching your operating ratio you don’t commit to any extra power until you’re sure you’ll need it.

Due to the service problems we’re seeing this past year we’ve noticed a resurgence of customers in our Rolling Stock Management business ([learn more by contacting Tealinc](#)). It appears everyone is working on precision railroading including shippers and receivers. Transporting goods in a manner that generates the maximum amount of goods being moved utilizing the fewest resources is vital to being competitive.

What’s the value of tracking, tracing and pushing railcars? Of getting bad orders and DDCT railcars thru a shop quickly and back to work? Of being sure running bad orders are fixed timely and put back in a train? Of getting that wayward railcar back on track? There are a lot of ways to measure the impact of “delays”. Some include:

- Increased demurrage costs due to bunching of railcars or in some cases



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It's a challenge to effectively run a railroad without delays, consistency is key

*Need help finding private railcar(s)?
Contact Tealinc- we can help!*

trains. We've seen demurrage costs that run 10 – 15% of the overall freight bill.

- Time value cost of the private railcar. Whether it's leased, owned outright or amortized through a loan and the clock continues to tick, it is costing money.
- Value of product. Be it a finished product such as a consumer good or an input product waiting to be blended or mixed to make an end product there is value in the supply chain. Extra storage, extra handling, extra resources all add up to extra costs.
- Reputation. As a supplier getting your customer requirements to your customer in a timely, consistent, reliable manner is important to your reputation as a dependable supplier. The ultimate cost of failure here is the lost business.

What impact do delays have on your business?

It's tricky to effectively run a railroad without delays. I know, I've spent ten years of my life working for Class I railroads in several capacities. What we found (years ago) is that consistency was key. Sure, you had to have a reasonable trip plan but if you were a little slower and 90% consistent the customer could at the least plan their logistics needs. Precision railroading, I believe, will drive consistency.

One thing you can plan on is a few more disruptions in the near term at the Union Pacific just like we saw on the Canadian National and Canadian Pacific and are seeing on the CSX. If you need some help planning ahead, we're here to help and look forward to working to create value for you.

Darell Luther is the founder and CEO of Tealinc, Ltd. You may contact Darell directly in his office at (406) 347-5237 or via email at darell@tealinc.com.



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Implementation of Truck Geometry Detection (TGD)

Truck hunting is a railcar bouncing from one side of the rail to the other side of the rail

Truck hunting used to be visually detected by carmen by looking for smoke from overheated bearings or stuck brakes, dragging equipment, open boxcar doors, shifted loads, slid flat wheels pounding the rail and excessive truck hunting

Mechanical Brief with Steve Christian



Truck Hunting has been an issue on the railroads going back as far as I can remember. Truck hunting is when a railroad car is bouncing from one side of the rail to the other on straight track. When an automobile is out of alignment, you need to make a lot of corrections with the steering wheel to keep moving in a straight line. Of course, a railcar does not have a steering wheel but instead relies on the interface of the wheel flange to the inside surface of the rail on each side. A railcar that has trucks that are in good condition will stabilize and will steer down the track with limited flange to rail contact.

When I was a young carman's helper on the Burlington, I was frequently paired with a carman to travel out in the road truck to a siding out in the boondocks to change a pair of friction bearing wheels that was set out with a hot box. Whenever a train was passing on the mainline we were instructed to stop our work and watch the train go by in-motion. We would give a high ball to the engineer or the head end brakeman, depending on what side we were on. That was our indication to them that we were going to inspect the train. We would look for smoke from overheated bearings or stuck brakes, dragging equipment, open boxcar doors, shifted loads, slid flat wheels pounding the rail and excessive truck hunting. Depending on what we found we could either give the conductor or rear brakeman (depending on what side we were on) a high ball that all was well, give the stop signal that there was a major problem or go find a company phone box along the track and call the dispatcher that there was a problem that could be taken care of at the next terminal.

As the result of watching trains pass in-motion and the words of wisdom from the senior carman, I learned a lot about stabilized and un-stabilized trucks. In those



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Stabilized trucks had friction castings and friction casting springs with that applied pressure against the side frame wear plates and the bolster slope pockets to control the motion of the trucks

Truck hunting detectors have been used for many years, new technology has allowed for the use of lasers to measure additional aspects of truck hunting

days, there were still a lot of friction bearing trucks. Some came with stabilized trucks and some without. As far as I knew, all roller bearing trucks were stabilized. For further explanation, stabilized trucks had friction castings and friction casting springs with that applied pressure against the side frame wear plates and the bolster slope pockets to control the motion of the trucks. It was easy to spot un-stabilized trucks because they bucked and jumped continuously down the track.

As time went on, the means of stabilizing trucks improved tremendously. There were two major designs, ASF Ride Control and Standard Car Truck Barber S-2 for many years. There have been several variations of these designs, but the basic concept has remained the same. There have also been a lot of changes to the rules that require tighter specifications for control of dimensions, materials and workmanship.

To keep everything functioning properly you need an effective program of detecting truck hunting in its early stages so that maintenance can be performed to the trucks before things get out of hand. By out of hand, I mean truck castings (side frames and bolsters) that are worn beyond the allowable limits for rebuild, excessive or unusual wheel wear and even body cracks from vibration of the railcar.

Class I railroads have had truck hunting detectors for many years now. As far as I am concerned, the jury is still out on how good they are. Apparently, the AAR was not convinced either because they have rolled out some new technology that uses lasers to measure more aspects of truck hunting.

On August 14, 2018, the AAR published circular C-13188 on "Implementation of TRUCK_GMTRY (Truck Geometry Detection- TGB) Data Summary". Truck



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TGD is a laser-based system with cameras mounted on tangent track

TGD detects: truck rotation, interaxle misalignment, tracking error and shifting

Geometry Detection (TGD) is a laser-based system with cameras mounted on tangent (straight) track. It states that “Truck Geometry Detection (TGD) is a laser-based system with cameras mounted on tangent track. The detector draws a laser line on the wheel plate and then compares the angle and position of this line to the track and determines wheel angle (angle of attack) and distance (tracking position) with respect to the gauge side of the rail.”

The TGD will detect:

- **Truck Rotation**
 - This is where the axles of the wheelsets of any truck are parallel to each other but are not perpendicular to the rail
 - This means the wheelsets are cocked in the truck or the truck itself is cocked on straight track
- **Interaxle Misalignment**
 - This is where the axles of the wheelsets of any truck are not parallel to each other and not perpendicular to the rail
 - Something is wrong if the axle centers are off from one side frame to the other
- **Tracking Error**
 - This is where each wheel is flanging, but on opposite rails
 - The wheelsets in this case are not in alignment going in a straight line
- **Shift**
 - This is where both wheels are flanging on the same rail
 - Everything is shifted to one side of the track

I am sure that the settings that trigger each TGB classification above will be subtle. I doubt that an in-motion inspection could alert you that a set of trucks should be flagged for truck hunting. Rather, I suspect, that determination can only be made



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**Need help with your
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**September 2018 car
loads up 2.6%
compared to the same
time last year**

**Carload commodities
that experienced an
increase September
2018 compared to
September 2017
included petroleum &**

by a detector. Time will tell whether the effectiveness of these detectors is confirmed. As of this date, I have not seen any hits in EHMS for any railcars in the Tealinc fleet. I am very interested to see how this all unfolds and I will follow it closely.

As always, Tealinc stands ready to employ our many years of experience and varied talents in the railroad industry to work for you.

Steve Christian is the Manager Value Creation-Operations for Tealinc, Ltd. You may contact Steve directly in his Colorado office at (719) 358-9212 or via email at steve@tealinc.com.

Railroad Traffic

The Association of American Railroads (AAR) today [October 3, 2018] reported U.S. rail traffic for the week ending September 29, 2018, as well as volumes for September 2018.

U.S. railroads originated 1,066,826 carloads in September 2018, up 2.6 percent, or 26,826 carloads, from September 2017. U.S. railroads also originated 1,127,385 containers and trailers in September 2018, up 6.2 percent, or 65,801 units, from the same month last year. Combined U.S. carload and intermodal originations in September 2018 were 2,194,211, up 4.4 percent, or 92,627 carloads and intermodal units from September 2017.

In September 2018, 14 of the 20 carload commodity categories tracked by the AAR each month saw carload gains compared with September 2017. These included: petroleum & petroleum products, up 14,750 carloads or 41.5 percent; chemicals, up 5,145 carloads or 4.2 percent; and grain, up 5,001 carloads or 6.1 percent.



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petroleum products, chemical and grain

“Weakness in a few commodity categories notwithstanding, rail traffic in September was consistent with the economy we have today in which fundamentals like industrial output and consumer spending are solid,” -AAR Senior Vice President of Policy and Economics John T. Gray

Commodities that saw declines in September 2018 from September 2017 included: coal, down 5,562 carloads or 1.6 percent; crushed stone, sand & gravel, down 3,042 carloads or 3 percent; and motor vehicles & parts, down 877 carloads or 1.3 percent.

“Weakness in a few commodity categories notwithstanding, rail traffic in September was consistent with the economy we have today in which fundamentals like industrial output and consumer spending are solid,” said AAR Senior Vice President of Policy and Economics John T. Gray. “Intermodal, the business line most closely related to consumer spending, was especially strong — the last two weeks of September were the top two weeks in history for U.S. intermodal. Tracking the economy and rail traffic require diligence to help identify turning points, but for now there is no indication that good economic times will end in the immediate future.”

Excluding coal, carloads were up 32,388 carloads, or 4.7 percent, in September 2018 from September 2017. Excluding coal and grain, carloads were up 27,387 carloads, or 4.5 percent.

Total U.S. carload traffic for the first nine months of 2018 was 10,248,559 carloads, up 2 percent, or 199,538 carloads, from the same period last year; and 10,832,004 intermodal units, up 6 percent, or 613,414 containers and trailers, from last year. Total combined U.S. traffic for the first 39 weeks of 2018 was 21,080,563 carloads and intermodal units, an increase of 4 percent compared to last year.

Visit the AAR at: <https://www.aar.org/news/rail-traffic-for-september-and-the-week-ending-september-29-2018/>



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U.S. east coast refiners cash in by the trainload on Canadian oil

Crude prices remain weak with no new Canadian export pipelines expected until late 2019

Canada is having difficulty building and expanding pipelines due to environmental and aboriginal opposition

Industrial Inside

NEW YORK/VANCOUVER (Reuters) - U.S. East Coast oil refiners are ramping up rail deliveries of crude from Western Canada, grabbing stranded barrels that full pipelines have driven to a record discount.

That trend is expected to accelerate, as prices will remain weak, with no new Canadian export pipelines expected until late 2019. Rail volumes from Canada to East Coast refineries averaged 35,000 barrels a day for the 12 months ending in July, up from 16,000 bpd for the prior 12-month period.

Canada is having difficulty building and expanding pipelines due to environmental and aboriginal opposition, prompting a swing back to its crude-by-rail delivery system.

Bottlenecks helped drive the discount of Western Canadian Select heavy crude, the primary grade of oil produced in the province of Alberta, to a record \$43.50 below U.S. West Texas Intermediate oil futures late last week.

Canadian light synthetic crude trades around \$18 below WTI, making both Canadian benchmarks more attractive to U.S. East Coast refiners than U.S. grades of oil or crude imported from Europe or Africa. Brent, the international benchmark, is currently trading at nearly a \$10 premium above U.S. crude.

“Historically, East Coast refiners would be at the mercy of global waterborne Atlantic pricing, but given how North American crude differentials materially weakened, this has been a significant boon,” said Michael Tran, commodity strategist at RBC Capital Markets.



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If the Canadian differential stays wide and rail capacity grows, traders expect volumes east to return to record levels around 100,000 bpd

Rail volumes from Canada to Gulf Coast refineries are larger than those to the East Coast

The Federal Reserve raised interest rates for the third time this year

With five of the top 10 U.S. refiners of Canadian crude scheduled to go offline for maintenance in the next six months, Canadian prices may remain depressed, Tran said. If the Canadian differential stays wide and rail capacity grows, traders expect volumes east to return to record levels around 100,000 bpd, last reached in 2014. Just one East Coast refinery regularly processes the heavy oil that accounts for most Western Canadian production, traders said. Recent rail shipments of heavy crudes have gone to PBF Energy Inc's 190,000-bpd Delaware City refinery, and light crude to Philadelphia Energy Solutions Inc's 335,000-bpd complex, sources said.

Phillips 66 took in Canadian heavy crude to its 258,000-bpd New Jersey refinery in April for the first time in a year and a half, and also imported in May and June, the last months for which data is available. PBF, Phillips 66 and PES declined to comment on commercial operations.

Rail volumes from Canada to Gulf Coast refineries are larger than those to the East Coast, but their growth rate is slower. Those volumes averaged 81,000 bpd in the 12 months to July, up 26 percent from the previous 12-month period, EIA data showed.

Read the entire article at: <https://www.reuters.com/article/us-canada-crude-refineries/u-s-east-coast-refiners-cash-in-by-the-trainload-on-canadian-oil-idUSKCN1MC0D8>

Financial Focus

The decision, which was expected, is a sign of increased confidence in the US economy. Unemployment is low, economic growth is strong, and inflation is relatively stable.



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Policymakers under Chairman Jerome Powell unanimously agreed to raise the federal funds rate a quarter percentage point, to a range of 2% to 2.25%

Policymakers under Chairman Jerome Powell unanimously agreed to raise the federal funds rate a quarter percentage point, to a range of 2% to 2.25%. The rate helps determine rates for mortgages, credit cards and other consumer borrowing. "Our economy is strong," Powell said at a press conference on Wednesday [September 26, 2018]. "These rates remain low, and my colleagues and I believe that this gradual returning to normal is helping to sustain this strong economy."

Central bankers raised expectations for a fourth rate hike in December, with a majority now in favor of such a move. In June, policymakers were split on whether the Fed should raise rates four times this year or three.

Looking ahead to 2019, Fed officials expect at least three rate hikes will be necessary, and one more in 2020.

"The Fed shows no signs of taking (a) breath in rate hikes," Robert Frick, corporate economist with Navy Federal Credit Union, wrote in a research note.

The central bank also stripped the word "accommodative" from its description of monetary policy. That may be a signal that the Fed believes interest rates are finally at a neutral level, meaning they neither stimulate nor hinder the economy.

The Fed kept rates near record lows for years to encourage growth after the financial crisis. But it has been gradually raising them over the past three years. Daragh Maher, the head of FX strategy for the United States at HSBC, said the change in language reflects "the reality that policy can no longer be usefully described as loose."

Feds kept rates near record lows for years to encourage growth after the financial crisis

The Fed wants to raise interest rates steadily to keep the economy from overheating, but avoid raising rates so quickly that it brings on could help start a recession.



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Feds want to raise interest rates steadily to keep the economy from overheating, but avoid raising rates so quickly that it brings on could help start a recession

Policymakers anticipate rates to decrease to 1.8% in 2021

Norfolk Southern announces changes to their tariffs effective January 1, 2019

For now, the chairman has maintained that gradual interest-rate increases are the best way to balance those risks.

Powell said that central bankers have heard a "rising chorus" of concerns from businesses about the US-China trade war. But he said that the economic impact of US tariffs is "still relatively small."

He warned that tariffs could lead to higher consumer prices, but said policymakers don't see that in the numbers just yet. Walmart, Gap, Coca-Cola, General Motors, Macy's and other companies have said tariffs could force them to raise prices on everyday consumer goods. The Fed raised its expectation for economic growth this year to 3.1% from 2.8%, reflecting strength in the second and current quarters.

But for 2019, Fed officials expect growth to slow to 2.5% amid worries about the growing trade rift between the United States and China. The revised estimate is slightly higher than what policy makers expected last quarter, at 2.4%.

The FOMC also gave its first look of what it expects for the economy in 2021. Policy makers anticipate economic growth will shrink to 1.8% in that year. Investors and former Fed Chairman Ben Bernanke have warned of an economic slowdown in 2020.

Learn more at: <https://money.cnn.com/2018/09/26/news/economy/federal-reserve-interest-rates-hike/index.html>

Railroad & Policy Updates

On October 1, 2018, the Norfolk Southern announced changes to their tariffs. Effective January 1, 2019, Norfolk Southern (NS) will be making changes to the



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following tariffs:

- Conditions of Carriage #1-E
- Coal Conditions of Carriage #2-P
- Demurrage and Storage Rules and Charges Tariff NS 6004-D
- Accessorial Service Rules and Charges Tariff NS 8002-A
- Thoroughbred Bulk Transfer Freight Tariff NS 9328-O

Below is a brief description of the primary changes to the tariffs. Consult the tariffs using the below links for additional information as the tariffs supersede any information contained in this announcement.

Conditions of Carriage #1-E:

<http://www.nscorp.com/content/nscorp/en/transportation-terms/other-requirements/conditions-of-carriage.html>

Read the full notification and tariff changes:

<http://www.nscorp.com/content/nscorp/en/shipping-tools/shipping-news-and-alerts/notification-of-changes-to-ns-condition-of-carriage-1-e--conditi.html>

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We look forwarding to earning your business!



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