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**Railroads getting
back on track**

We (the rail industry) are typically maybe four to six weeks behind the curve when you see a decline. We are usually that four to six weeks ahead of the curve when you start seeing an improvement in the economy

Railroad Updates

After furloughing thousands of employees several months ago, things are looking up at BNSF Railway Co. and Union Pacific Railroad.

"At the trough of the recession, BNSF had more than 3,000 employees on furlough around the network," said Andy Williams, director of public affairs for BNSF. "We have called nearly all of them back, including all in the Topeka and Kansas City areas."

BNSF Railway indefinitely furloughed 10 employees in its Topeka mechanical department in June 2009. The company also announced at the time that it was reducing its mechanical department companywide by 307 positions — 40 from attrition and the remaining 267 from furloughs. That move came after the company took similar action in February 2009, when it furloughed 150 employees nationwide, 26 of them in Topeka.

Mark Davis, spokesman for UP, said the company had to furlough 5,300 people across the system at the height of the recession in spring 2009. "That number was reduced to about 1,000 in late September. Things got better," Davis said. "The rail industry is an excellent barometer in showing growth in the economy. We are typically maybe four to six weeks behind the curve when you see a decline. We are usually that four to six weeks ahead of the curve when you start seeing an improvement in the economy."

Although both companies are seeing an improvement, Williams and Davis said things aren't back to prerecession numbers.

"Our total employment levels are still below the peak levels of a few years ago when BNSF and the rail industry were setting volume records," Williams said.

UP recently had to furlough an additional 500 to 600 train service employees — including engineers and conductors — across the system, Davis said. UP tends to get an increase in the number of loaded cars from August through mid-October because that is the time of year when many businesses are gearing up for the holiday season. But as the number of loaded cars falls toward the end of fall, the demand for train service employees decreases, too.

"We saw carloads drop about 10,000," Davis said. "Carloads were reaching about prerecession numbers, but then we dropped recently. This year, we didn't see, because of the recession, a large bump in goods move. We are looking at having them (furloughed employees) called back by late the first quarter."

Although UP had to furlough train service employees, it is currently hiring in other areas, such as diesel mechanics, electricians, signal design engineers and information technology.

UP & BNSF total employment levels are still below the peak levels of a few years ago

UP has seen more and more businesses beginning to use its rail services

**January 1, 2012
CSX will be implementing a new hazardous materials publication**

"Need for those positions change daily," Davis said. "We always encourage people to go look for those jobs at the [unionpacific.jobs](#)." BNSF Railway also is hiring.

"Current openings are posted to our website," Williams said. "Most openings are to replace retiring workers. Long-term hiring needs will largely be determined by what happens with the economy."

UP has 2,205 miles of track in Kansas and 1,446 employees with an annual payroll of \$131.7 million, Davis said. Topeka has 77 employees with an annual payroll of \$5.4 million.

Williams was unable to provide similar information about BNSF Railway. UP has seen more and more businesses beginning to use its rail services. "We have a very aggressive marketing team that is going out and looking for new ways to bring traffic to Union Pacific Railroad," he said. "This started during the recession. The marketing team challenged itself to look for industries that haven't thought about using rail before. We started seeing additional carloads come to the rail or come back on line. That always means we need to bring people back to work."

UP also tried something new with its employees, Davis said. "When you bring someone back to work in the rail industry, they have to go back through (safety) rules training," he said. "They have to have refresher courses. This time we had employees stay with us and work at a reduced number of days."

Employees who took advantage of the program got to keep their benefits package, Davis said.

"An employee may be working eight days a month and is only getting paid for eight days a month, but more importantly he is retaining his benefits," he said. "He is able to keep his rules current and doesn't have to go back through training. As soon as things start getting better, an employee can step up and work right away."

Read the entire article at: http://cjonline.com/news/local/2010-12-11/railroads_getting_back_on_track

New Hazardous Material Publication

On January 1, 2012, CSX Transportation (CSXT) will be implementing a new hazardous materials publication. This publication will contain CSXT's rules, requirements, and policies for shipping hazardous materials (including Toxic Inhalation Hazard (TIH) and Poison Inhalation Hazard (PIH) materials). It will include accessorial pricing for all hazardous materials (all 48 and 49 STCC's) on its network. CSXT's rules, requirements, and policies for movement of Hazardous and Non-hazardous waste will continue to be governed by the CSXT 4048 Publication. CSX Transportation's obligation under current federal law to transport hazardous materials on its network imposes extensive regulatory and operational requirements, as well as increased risks. With this in mind, CSX has reviewed the accessorial charges associated with handling of hazardous materials.

CSXT's rules, requirements, and policies for movement of hazardous and non-hazardous waste will continue to be governed by the CSXT 4048 Publication

CSXT is required under DOT regulations to advance hazardous material cars toward destination within 48 hours of arrival of those cars in their yards

Idled railcars reach two-year low

Railcar owners had steadily pulled more cars from storage this year through April

The AAR estimates that about 55% of railcars that were

Effective January 1, 2012, CSX Transportation will be increasing its private car storage (demurrage) and customer switching charges as follows:

Hazardous (non-TIH/PIH):

- Private Car Storage 1 free credit --\$150 per day (currently 2 credits / \$40 per day)
Intra-Plant Switching--\$175 per car (no change)
Intra-Terminal Switching--\$500 per car (currently \$400 per car)

TIH / PIH:

- Private Car Storage 1 free credit--\$1,200 per day (currently 2 credits / \$40 per day)
Intra-Plant Switching--\$500 per car (currently \$175 per car)
Intra-Terminal Switching--\$1,000 per car (currently \$400 per car)

Note: Charges apply to loaded cars.

Other rules, requirements and prices relating to accessorial charges will continue to be published in CSXT 8100.

CSXT is required under DOT regulations to advance hazardous material cars toward destination within 48 hours of arrival of those cars in their yards. Government regulations require positive and secure hand-offs of Rail Security Sensitive Materials ("RSSM") when picking-up RSSM shipments, delivering them within a High Threat Urban Area ("HTUA"), or at interchange with another railroad within an HTUA or outside an HTUA if the car may subsequently enter an HTUA. For customer convenience, CSX will incorporate Tariff 4849 into the new hazardous materials publication.

Learn more at:

<http://www.csx.com/index.cfm/customers/news/customer-news/new-hazardous-materials-publication/>

AAR Updates

Owners of railcars across North America pulled 5,539 units of various types out of storage during August 2011, shrinking the idled fleet to its lowest level since the 2008-2009 recession.

[The reactivation in August] was the strongest monthly drawdown of parked railcars since April 2011. It left 271,404 still idle as of September 1, 2011, said the Association of American Railroads, for 17.8 percent of the total fleet of available cars across the continent.

It is another indication that rail freight activity picked up in August after slowing earlier this summer. Railcar owners had steadily pulled more cars from storage this year through April, but parked some during both May and July as economic growth slowed and weather problems interrupted some rail corridors

Back in June and July 2009, more than 500,000 railcars were sitting idle at rail yards, shipper facilities and on unused track sidings, with no revenue loads for at least 60 days. That amounted to 31.9 percent of all units available for freight service. August marked the first time since then that the idled fleet percentage fell below 18 percent.

pulled off storage lots were reactivated in the past two years

The AAR estimates that about 55 percent of railcars that were pulled off storage lots were reactivated in the past two years, while about 45 percent were scrapped or otherwise removed from the listed fleet.

Car owners include equipment lessors, railroads and shippers. The AAR said owners have also installed 43,445 new cars since July 2009, and manufacturers report strong orders to supply more.

Industry sources say some of the stored cars are largely obsolete for today's market, such as intermodal well cars for 48-foot domestic containers that have been supplanted by 53-ft. boxes. While some idled cars are being rebuilt for the larger boxes or otherwise waiting to be reactivated, many of those still parked could eventually be scrapped.

To learn more or sign up for the webinars please visit:

<http://www.joc.com/rail-suppliers/idled-railcars-reach-new-two-year-low>

Mechanical Brief with Steve Christian

Railcar vibrator use and misuse

The movement of bulk commodities like aggregate, grain and coal is a perfect fit for railcars. They haul large quantities very economically and loading the cars is usually very efficient. The issues arise when the cars are unloaded. Some of the commodities cake up or create bridges inside the car which impede unloading. The introduction of moisture and/or freezing temperatures just compounds the problems. This is where railcar vibrators come into play.

Covered hoppers and open top hoppers have multiple uses for the vibrators

One of the main means of freeing the commodity to flow out of the cars is the use of railcar vibrators. Covered hoppers generally have a vibrator bracket attached to each hopper on both sides of the car. They are usually castings that are welded or bolted to the outside hopper slope sheets. A portable vibrator with a wedge shaped attachment is inserted in the bracket. If they are not overused they are effective and don't cause damage to the car.

Open top hoppers are another matter. There are two main types of vibrators: overhead top chord vibrators and portable "clamp-on" vibrators. The overhead top chord vibrator is mainly used where there is a permanent unloading spot. An overhead hoist lowers a frame work that spans both top chords and applies vibration from the top chord to the car. Used only when needed, this is a very effective way of vibrating the car that causes very limited damage.

There are two main types of vibrators:

The "clamp-on" vibrators are very problematic. Most unloaders do not place clamp-on vibrators properly on the car and instead tend to apply them on the horizontal leg of the side sill adjacent to the car body. That leg of the side sill is very vulnerable since the load is solidly behind the vertical leg of the side sill. As the result, when you run the vibrator all you are doing is stressing the side sill and causing cracks and fractures to the side sill and side sheets. I have seen very extreme examples of this where side sills have had multiple chunks gnawed off by the vibrators. The proper way to use these vibrators is to clamp them to the end sills only.

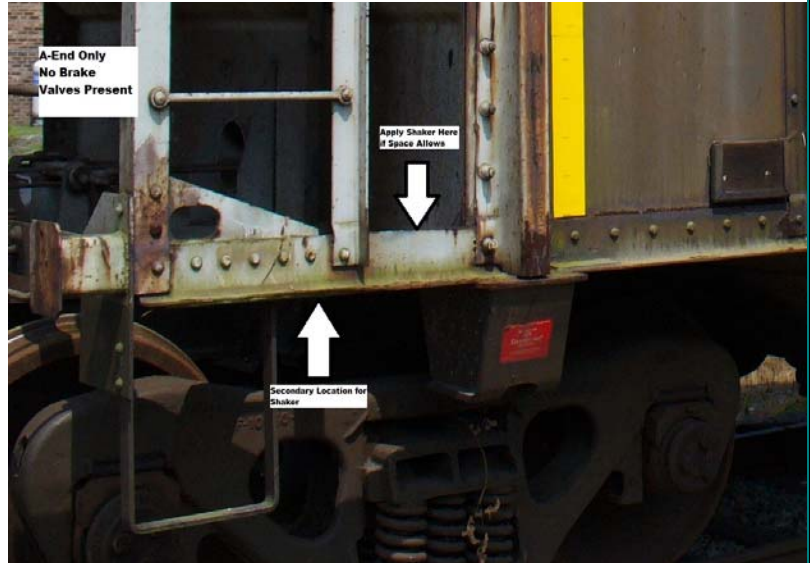
**overhead top chord
vibrators and
portable “clamp-
on” vibrators**

**Take stock of your
loading, unloading
and railcar
operating
procedures and
ensure that you’re
following
appropriate
mechanical
protocol**

**AAR reports mixed
results for August
rail traffic**

**12 of the 20
carload commodity
categories saw
increases compared
with August 2010**

At this location the sill is able to transmit the vibration efficiently to the car without causing major damage. My recommendation overall though is to avoid the use of this type of vibrator altogether if possible. Proper application of the vibrator can translate into a railcar maintenance savings for railcar, owners, lessors and lessees alike.



The big picture message here is to take stock of your loading, unloading and railcar operating procedures and ensure that you’re following appropriate mechanical protocol. If we can help direct or focus your efforts, we’re happy to lend a hand.

Steve Christian is the Manager Value Creation-Railcar Performance Manager for Tealinc, Ltd. You may contact Steve directly out of our Nebraska office at (308) 675-0838 or via email at steve@tealinc.com.

Railroad Traffic

The Association of American Railroads (AAR) reported September 8, 2011 mixed results for August rail traffic compared with the same month last year, with U.S. railroads originating 1,482,570 carloads, down 0.3 percent, and 1,179,838 trailers and containers, up 0.4 percent.

In August 2011, 12 of the 20 carload commodity categories saw increases compared with August 2010. The largest gains were in metallic ores, up 6,665 carloads or 16.6 percent; motor vehicles and parts, up 5,577 carloads or 8.8 percent; and primary metal products (mainly steel), up 5,238 carloads or 11.1 percent.

Compared to August 2010, grain carloads in August 2011 were down 18,423 or 17.1 percent, and coal carloads were down 11,747 or 1.7 percent. Excluding coal and grain, U.S. rail carloads in August 2011 were up 26,362 carloads or 3.7 percent over August 2010.

As of September 1, 2011, 271,404 freight cars, or 17.8 percent of the North American fleet, were in storage. This is 5,539 fewer cars than on August 1.

For the first 35 weeks of 2011, U.S. railroads reported cumulative volume of 10,133,479 carloads, up 1.9 percent from the same point last year, and 7,931,620 trailers and containers, up 5.8 percent from last year.

Read more at: <http://www.aar.org/NewsAndEvents/Freight-Rail-Traffic/2011/09/08-railtraffic.aspx>

Industrial Inside

Forget the gold rush; it's all about sand these days.

Frac sand production is growing in North America. Many frac sand mines and processing plants have come online this year, and many others are planned to begin operations in the next few years.

Frac sand is a material commonly used in the hydraulic fracturing process. A hydraulic fracture is formed by pumping a fluid into a well bore quickly enough to drive the pressure to cause a crack in the rock formation located in oil and gas wells. In order to keep these cracks open after the injection stops, a sand-like material proppant is added to the fluid, providing a path connecting the larger area of the reservoir to the well. As a result, the area from which fluids can be produced is increased.

Using sand in the hydraulic fracturing process is not a new concept. Natural gas and oil companies have used sand for drilling since the technique was developed in the mid-20th century. The increased demand for oil and natural gas has driven energy companies to seek production increases by either stimulating older wells and/or drilling new ones, which in turn increases the need for more frac sand mines and process plants.

[The publisher of this article], Industrial Info, is monitoring 28 industrial sand mines and processing plants in its North American database. Of the 23 active projects in the Industrial Sand and Construction Sand & Gravel sectors, eight projects are frac sand projects in various stages of planning. This figure is rapidly growing as companies are considering almost 20 other sites in North America for frac sand mining and processing projects. [The publisher] expects to see frac sand projects double by the end of this year.

Currently, the sand mine hotspots seem to be in British Columbia, Canada, Texas and Wisconsin. Planned projects for these areas total \$335 million, with the bulk being spent in Wisconsin: \$210 million on six different projects. In British Columbia, Industrial Info is tracking frac sand projects with combined total investment values of \$100 million, as well as a \$25 million frac sand project in Texas.

Smaller companies in the Wisconsin Rapids, Wisconsin area have plans build two to three frac sand mines in the next few years in Wisconsin and Minnesota. The first of these mines is scheduled to come online in 2012, pending permit approvals. Initial reports suggest that this mine would produce roughly 750,000 tons per year of frac sand.

In Houston, Texas, a recently completed \$50 million frac sand mine and processing plant have reported the a 1 million-ton-per-year mine and 175-ton-per-hour processing plant that are rated to produce about 800,000 tons per year of quality frac sand proppants.

This has shown to increase the numbers of request for new railcar orders.

Rapid escalation anticipated for U.S. frac sand mining and processing projects

Increased demand for oil and natural gas has driven energy companies to seek production increases by either stimulating older wells and/or drilling new ones

IIR expects to see frac sand projects double by the end of 2011

Frac sand hotspots are British Columbia, Canada, Texas and Wisconsin

1,000 cars are slated to be built in the next year for frac sand alone

Bernanke: Fed prepared to act

"If inflation itself falls too low or inflation expectations fall too low, that would be something we'd have to respond to because we don't want deflation," Mr. Bernanke said

High unemployment rate is "a national crisis" that required attention from the White House and Congress

American Railcar Industries has increased their employees to keep up with demand. ARI has seen an increase of new cars on book to build in the upcoming year for the booming natural gas and oil industry. 1,000 cars are slated to be built in the next year for frac sand alone. The small cube covered hoppers are in high demand and the industry is having a hard time finding older cars so building new ones is the next option.

This article has been edited for content. You can read the entire article at: <http://www.industrialinfo.com/showNews.jsp?newsitemID=186382>, http://www.paragoulldailypress.com/articles/2011/09/30/top_story/doc4e84fdde8b358429425119.txt

Financial Focus

Federal Reserve Chairman Ben Bernanke on Wednesday, September 28, 2011 signaled [that] he is prepared to take more unconventional policy steps if the weak U.S. economy worsens too much.

Mr. Bernanke stressed [that] the Fed is watching price trends very closely. "If inflation itself falls too low or inflation expectations fall too low, that would be something we'd have to respond to because we don't want deflation," Mr. Bernanke said in a question-and-answer session after a speech in Cleveland.

The Fed chief didn't say he sees deflation -- or a debilitating decline in prices -- as a risk right now. Prices have actually been rising above the Fed's 2.0 percent comfort zone in recent months. Mr. Bernanke said inflation expectations currently indicate that price increases will average around 2 percent over the coming years, which is where the central bank wants to see them.

Highlighting his concern over the economy's weakness, however, Mr. Bernanke said the high unemployment rate was "a national crisis" that required attention from the White House and Congress.

"We've had close to 10 percent unemployment now for a number of years, and of the people who are unemployed, about 45 percent have been unemployed for six months or more. This is unheard of," Mr. Bernanke said.

The Fed chief has shown a strong determination to do what is needed to fix a persistently weak economy. But while efforts taken to fight the financial crisis of 2008 were praised by most, the Fed's most recent steps to buy bonds to spur growth have drawn criticism from several quarters. Senior Republicans worry that future inflation is the real problem and that the central bank is only making it worse with its unorthodox moves.

The Fed took more unconventional steps at its latest policy meeting week of September 19th, 2011 The central bank said Sept. 21, 2011 that it will sell \$400 billion of its U.S. Treasury securities maturing in the next three years and replace them with longer-term bonds maturing in six to 30 years. The program is meant to drive down long-term interest rates to make borrowing cheaper. The Fed also plans to halt the shrinkage of mortgage securities

Fed plans to halt the shrinkage of mortgage securities from its portfolio, a move directed at helping the housing sector

“Advanced economies like the United States would do well to relearn some of the lessons from the experiences of the emerging-market economies,” said Mr. Bernanke

from its portfolio, a move directed at helping the housing sector.

In an apparent criticism of lawmakers in the U.S. and other developed countries, Mr. Bernanke said the nation has something to learn from the economic success story of China and other emerging-market countries.

Disciplined fiscal policies, the benefits of open trade and the need to encourage private capital formation were among the reasons the Fed chief listed to explain the high growth rates experienced by China, India and other countries. Technological advances and education are also key factors that helped these countries perform better than the U.S. over the past decade.

"Advanced economies like the United States would do well to re-learn some of the lessons from the experiences of the emerging-market economies," Mr. Bernanke said in a speech, part of the Cleveland Clinic's "Ideas for Tomorrow" series.

Read the entire article at:

<http://online.wsj.com/article/SB10001424052970204226204576600622017811888.html>

The Edge

The fall has historically been an interesting time of year for the rail industry. There are no exceptions this fall as there continues to be an overabundance of challenges for all involved in commerce in general. If you look at the most recent fleet statistics (published by Progressive Railroading in their July magazine) you get a feel for how deep the slow-down in the economy has gone and how quickly the struggling industries have regrouped.

If you review the chart below you'll note that a broad based calculation indicates that in the year of 2009 the 1.36 million (U.S. railcars only) generated a cycle time of 1.59 trips per month which means that every railcar (in service and stored) registered a trip every 18.86 days. It is important to keep in mind that during 2009, the cars in storage added up to more than a few hundred thousand railcars. To keep the numbers in perspective, consider that in 2008 each railcar (prior to the big recession of 2009) registered a trip every 16.39 days and in 2010, a year categorized by some market recovery, cars registered a trip every 16.12 days.

When you look at the data for 2009 car loadings, you can gatherer that it was the worst car load originations year since 1998 – a year that was actually a growth period. When you follow the railcar counts (total cars) and follow car loadings, you'll notice a shrinking of the overall U.S. railcar fleet due primarily to an aggressive scrapping campaign by Lessors.

Million				
Year	Total Cars	Carloadings	Carloadings / Car	TPM
1976	1.7	23.4	13.76	1.15
1980	1.71	22.2	12.98	1.08
1984	1.49	20.9	14.03	1.17
1988	1.24	21.6	17.42	1.45
1992	1.17	21.2	18.12	1.51
1993	1.17	21.7	18.55	1.55
1994	1.19	23.2	19.50	1.62

1995	1.22	23.7	19.43	1.62
1996	1.24	24.2	19.52	1.63
1997	1.27	25	19.69	1.64
1998	1.32	25.7	19.47	1.62
1999	1.37	27.1	19.78	1.65
2000	1.38	27.8	20.14	1.68
2001	1.31	27.2	20.76	1.73
2002	1.3	27.9	21.46	1.79
2003	1.28	28.9	22.58	1.88
2004	1.29	30.1	23.33	1.94
2005	1.31	31.1	23.74	1.98
2006	1.35	32.1	23.78	1.98
2007	1.39	31.5	22.66	1.89
2008	1.39	30.6	22.01	1.83
2009	1.36	26	19.12	1.59
2010	1.31	29.2	22.29	1.86

So what does this mean for shippers?

When you look in depth at various railcar fleets you'll notice that no one railcar type quantity has increased. Broad brushed categories of plain box cars, equipped boxcars, gondolas, hoppers, covered hoppers, flat cars, refrigerated cars, tanks cars and general catchall of other have all decreased between 2009 and 2010; however, within these categories you'll notice significant shifts. Key points to follow on each car type category are as follows:

- High cube, plain 100 ton 60' boxcars are healthy, 70 ton plate C are dying.
- 286K gross weight on rail aluminum coal gondolas and 286K GWR high cube mill gondolas are healthy, 263K GWR 5' sided cars are okay and all other mill gondola dimensions are stagnate. The lack of use in the 263K GWR market is being driven by the depressed construction market and fall out of aggregate, sand and gravel use.
- Steel open top hopper cars that are 3400 cube or less (which represents a good deal of the eastern U.S. coal fleet) are a dying breed. The inherent corrosion in the east is corroding and thus killing this car type and transportation rate differentials are speeding up their death. Steel western coal hoppers in the 4000 cube range, even at 263K GWR, continue to be in high demand for industrial customers.
- Covered hoppers that are 286K GWR and commonly used to move grain, DDG, and the like are in demand with some market's strong grain supply push requiring the good old standby 4750 cube. Following our Industry Inside article focused on the frac sand market (see above) it is easy to see that the biggest onslaught of covered hopper demand has been for 286K GWR covered hoppers led by the frac sand market. This markets success looks as though it will continue for the foreseeable future.
- Flat cars that are 110 ton, multiplatform cars or waste flats capable of higher capacity boxes remain in demand. Some use of less than 110 ton cars remains but it's restricted to select commodities and areas.
- Ice cold express and similar programs have saved the refrigerated railcar but it certainly is of a different type and capacity when compared to the car of ten years ago.
- Tank cars are focused on crude and ethanol. There's a disparate occurrence happening in this market as many cars that would not otherwise be considered for crude hauling are in crude service. Product values have found a way to overcome capacity and rail rate differentials.

If I were to look at the situation from a 30,000' point of view, the conclusion I'd come to would be:

- Railroads will continue to push shippers into private railcars. The precedence started in the coal car area in the late 1980's and will continue to be refined for outlier car types even within categories that are of car types that railroads have in the past supplied
- Rail transportation costs will continue to rise not only through direct rail increases but through the shift in railcar costs. Shippers will bare more costs in the switch from railroad supplied to private cars. Rail rate differentials will capture some of the benefits of the shift to the railroads.
- Management of private cars will continue get more complex. Dealing not only with leasing or buying railcars, shippers will be forced to also deal with the menagerie of other responsibilities such as private railcar mark registration, maintenance, insurance, taxes, way billing empties and loads, private mileage utilization and the like.

The macro and refined micro fleet and fleet utilization numbers tell us that railroads must continue to find every method possible to make a return for their stockholders. Redistribution of the responsibility of fleet ownership and management is a very clear way to make an impact to their bottom lines. With growth pressure and Wall Street earnings pressure, plan on obtaining and managing your own railcars. The real key here will continue to be to **MANAGE** your fleet.

If we can be of any assistance feel free to call upon us at any time.

We look forward to earning your business!