Touchbase September 2014

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Effective August 12, regarding the restriction of units into Canada

Railroad & Policy Updates

Over the past several months, Railinc has implemented several releases in support of the Transport Canada Protective Direction No. 34, Transport Canada Protective Directive No. 34 (TC-PD-34).

Suggestion is that the directive has encompassed much work and support of the industry. With that said, please take note of the final decision made by the UMLER Committee, with support of the AAR and Railinc, for the direction of the industry in support of this mandate.

Effective Tuesday, August 12, the industry has transitioned from utilizing the B525 element, (TC-PD-34 Owner Identified), to the system generated element B527 (Restricted under TC-PD-34) regarding the restriction of units into Canada.

What You Need to Do
Make sure your tank cars are updated within UMLER. If your equipment is in conflict, it requires an update.

UMLER Highlights in Support of TC-PD-34
As detailed in prior notifications supporting this directive, the following business rules and elements were established.

- Added a new element, TC-PD-34 Owner Identified (B525), with an element description of 'Owner reporting to identify "Transport Canada Protective Direction #34" Restricted/Non-Restricted cars.' The Permissible Values for this new element are Y = Yes and N = No
- Added a new element, Stub Sill Design Variation (B526), with an element description of 'Type of reinforcement on the bottom shell of the tank car.' The Permissible Values for this new element are N = Non-Continuous and C = Continuous
- Adding a new system generated element to the tank car group titled, Restricted under TC-PD-34 (B527), with an element description of 'Tank Car Subject to restrictions under TC-PD-34.' The Permissible Value for this new element is Y-Yes.
- The rules that qualify a car for the system generated Y-Yes under B527 are as follows:
  - A237, Shipping Container Specifications (Stenciled) begins with "111" or "211"
  - A251, Stub Sill Design Type does not equal "FULL"
  - B208, Tank Shell Material Normalized does not equal "Y"
  - A257, Tank Shell Material Specification equals "51570" or "1997UNK"
  - B526, Stub Sill Design Variation equals "N" or is blank
  - X109, Coils Exterior/Interior does not equal "E"

If you have any questions about Railinc's UMLER system, contact the Railinc Customer Support Center by email at csc@railinc.com or by phone at 877-724-5462.

Final rule on PTC

FRA Issues Final Rule on PTC Implementation

The Federal Railroad Administration (FRA) has issued a final rule on positive train control (PTC) systems that amends certain Rail Safety Improvement Act of 2008 regulations.

Published on August 22, 2014 Federal Register, the final rule revises and enhances regulations governing freight and passenger railroads' implementation of PTC on certain mainlines. Under federal law, the railroads are required to install PTC systems on their lines by Dec. 31, 2015.

To take effect Oct. 21, the final rule:
• revises an existing regulatory exception to the requirement to install a PTC system for
track segments carrying freight only that present a "de minimis" safety risk, meaning a general de minimis exception to the requirement to implement a PTC system on a given
track segment;
• adds a new exception for PTC-unequipped freight trains associated with certain freight yard operations to operate within PTC systems;
• revises the existing regulations related to en route failures of a PTC system;
• adds new provisions related to other failures of a PTC system;
• amends the regulations on applications for approval of certain modifications of signal and train-control systems; and
• makes technical amendments to the FRA's other signal and train-control regulations and regulations governing grade crossing warning systems.

...the railroads are required to install PTC systems on their lines by December 31, 2015

Read the entire article:
http://www.progressiverailroading.com/ptc/news/FRA-issues-final-rule-on-PTC-implementation--41567

Mechanical Brief with Steve Christian

Last month, I wrote an article entitled "Understanding AAR Office Manual RULE 88." I went through the different types of Unit (railcar) statuses and the requirements of each. As beneficial as I hope you found this article, it should also be noted that facilities that manufacture or perform the mechanical work needed for a change in status must be certified by the Association of American Railroads (AAR).

The following lists the different statuses from Rule 88 and the corresponding AAR requirements for plants and repair shops involved with this work:

Ask for shop facility credentials before you agree to do business with them

New Units (NW)
New freight cars must be manufactured in a facility with A20 "Manufacture of Freight Cars" certification by the AAR. The facility must also have technical approval under Specification S-2034 and Quality Assurance certification under Specification M-1003 of the AAR Manual of Standards

and Recommended Practices (MSRP).

New tank cars must be manufactured in a facility with A19 “Manufacture of Tank Cars” certification by the AAR. The facility must also have technical approval under M-1002 and Quality Assurance certification under M-1003 as per the AAR MSRP.

The AAR provides new freight car and tank car manufacturers certificates that will be prominently displayed in their facility. This certification requires a great deal of investment in plant, equipment, procedures and training. There are periodic AAR Mechanical Inspection Department (MID) compliance inspections and recertification audits performed. Attaining and maintaining certifications are great accomplishments and the certification informs you as the customer that the shop is qualified to complete the work you need them to do.

New freight cars must be manufactured in a facility with A20 certification, new tank cars must be manufactured in a facility with A19 certification

Rebuilt Units (RB), Modified Units (MOD), Increased Gross Rail Load Units (IGRL), Extended Service Status Units (EXS), Increased Life Status Units (ILS)

All of the work for accomplishment of these statuses for freight cars must be performed in freight car repair facilities with B26 “Freight Car Repair Facility Performing Office Manual Rule 88 Repairs/Modifications” certification by the AAR after a mechanical technical inspection and approval by the MID. The facility must also have Quality Assurance certification under M-1003 as per the AAR MSRP. If you’re looking to get AAR approval for your upgrade / modification, you’ll need to have a certified shop do the work.

All of the work for accomplishment of these statuses for tank cars must be performed in a facility with B24 “Tank Car Repair Facility” certification by the AAR. The facility must also have technical approval under M-1002 and Quality Assurance certification under M-1003 as per the AAR MSRP.

As with new freight car and tank car manufacturers, the AAR provides freight car and tank car repair facilities with certificates that will also be prominently displayed in their facilities. To accomplish this, these shops also require investment in plant, equipment, procedures and training. They also undergo AAR MID compliance inspections and recertification audits. Attaining and maintaining these certifications are also impressive accomplishments.

What is the message I am trying to convey in this article? Ask your freight car/tank car manufacturer or repair shop for a copy of their current AAR certificates. I have only scratched the surface of the many AAR certifications for many railcar products and services. Make sure that your manufacturer or shop has the required AAR approvals for the specific work you need ***before*** you commit to doing business with them.

This certification requires a great deal of investment in plant, equipment procedures and training

As always, Tealinc stands ready to put our knowledge and experience to work for you.

*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

AAR reports increased traffic for July

The Association of American Railroads (AAR) reported on August 7, 2014, increased U.S. rail traffic for July 2014, with both carload and intermodal volume increasing compared with July 2013. U.S. Class I railroads originated 1,471,811 carloads in July 2014, up 6.3 percent (86,792 carloads) over July 2013. Total carloads averaged 294,362 per week in July, the highest weekly average for July since 2008.

Intermodal traffic in July totaled 1,286,160 containers and trailers, up 5.5 percent (67,524 units) over July 2013. The weekly average in July was 257,232 units, the highest for any July in history.

Fifteen of the 20 commodity categories tracked by the AAR each month saw year-over-year carload increases in July. Commodities with the biggest carload increases in July 2014 over July 2013 were led by motor vehicles and parts, up 21,992 carloads, or 35.9 percent. Carloads of crushed stone, gravel, and sand were up 16,690, or 15.9 percent, their third straight month of double-digit year-over-year growth. Carloads of grain rose 14,968 carloads, or 18.7 percent. July marked the ninth straight month of double-digit gains in U.S. grain carloads, something that hasn't happened since 1995.

Commodities with the biggest carload were motor vehicles and parts, crushed stone, gravel and sand, and grain

Commodity carloads that decreased in July 2014 over July 2013 were led by coal, down 9,464 carloads, or 1.7 percent.

Excluding coal, U.S. rail carloads were up 96,256 carloads, or 11.7 percent, in July 2014 over July 2013, the largest year-over-year percentage gain since June 2010. Excluding coal and grain, carloads in July were up 81,288 carloads, or 11 percent, their largest year-over-year percentage gain since December 2011.

"The economy has had several so-called "false dawns" over the past few years, but based on current rail traffic levels, there's reason to be optimistic that this time the economy might start growing like it should," said AAR Senior Vice President John T. Gray.

Visit the AAR at:
https://www.aar.org/newsandevents/Freight-Rail-Traffic/Pages/2014-08-07-railtraffic.aspx#.U_tjAfldXjU

Industrial Inside

As the U.S. considers sanctions targeting Russia's oil and gas industry, the news is mixed for the U.S. companies among the industry's key suppliers.

Could additional Russia sanctions hit U.S. oil industry suppliers?

First, the bad: Sanctions could disrupt lucrative Russian sales of oilfield gear and services by companies such as Exxon Mobil (XOM), Halliburton (HAL), and National Oilfield Varco (NOV). These and other U.S. companies could be blocked from selling to the Russians technology that's manufactured or patented in the U.S., people familiar with discussions on potential sanctions have told Bloomberg News. And the European Union is unlikely to join in the sanctions, these people say. That could give European companies an opening to pick up their U.S. rivals' lost business.

On the upside, European competitors could find it hard to cash in. One reason is that major European oilfield services groups are so deeply entrenched in the U.S. that sanctions could hit them as well. Schlumberger (SLB), the world's top oil and gas servicing company, was founded in France but now has dual corporate headquarters in Houston and Paris.

Although not incorporated in the U.S., companies such as Schlumberger might still be required to comply with U.S. sanctions, says Michael Socarras, a Washington-based attorney with Chadbourne & Parke who has advised Russian state-owned companies on sanctions. When the U.S. imposed sanctions earlier this year on some Russian individuals, it barred all "U.S. persons"—including companies—from doing business with them. A non-U.S.-based multinational could be considered "a person in the United States, depending on their level of activity in this country," Socarras says.

U.S. companies could be blocked from selling to the Russians technology that's manufactured or patented in the U.S.

What's more, some of the technologies that Russia wants most come mainly from the U.S. For example, Schlumberger has a contract with Russian energy giant to help develop shale production in Western Siberia. But much of the equipment—and even some drilling crews—are being shipped in from Schlumberger operations in Texas and North Dakota. "The European companies do have some experience [with shale], but a lot of the equipment and the know-how come from the U.S.," says Matthew Bey, an energy analyst at Stratfor, a geopolitical intelligence firm based in Austin, Tex. "Even companies doing shale exploration in Europe got the technology from Americans."

No question, sanctions could hurt some big U.S. players such as Halliburton, which has major services contracts in Russia. Such contracts "tend to be higher-margin than some product contracts," says Rob Desai, a St. Louis-based analyst at Edward Jones. If one of Halliburton's Russian clients were forced to switch to a non-U.S. company, "they may not want to switch back," because of the expense and time involved in the changeover, Desai says.

Companies such as National Oilwell Varco could be better-placed to weather sanctions, Desai adds. If sanctions were imposed, the Houston-based equipment maker might temporarily have to stop selling items such as pipes and drill bits to Russian customers, but the customers would probably come back as soon as sanctions were lifted, he says. "Switching costs are a lot lower, and this company has a very high-quality product."

…possible that the U.S. sanctions might affect only new projects…

It's also possible that the U.S. sanctions might affect only new projects, while deals underway would be allowed to go forward. Representatives of Exxon Mobil, Halliburton, and National Oilwell Varco declined to comment on potential sanctions when contacted by Bloomberg News. A representative of Schlumberger couldn't immediately be reached.

Read the entire article at:
http://www.businessweek.com/articles/2014-06-26/could-additional-

russia-sanctions-hit-u-dot-s-dot-oil-industry-suppliers

Financial Focus

'Is it safe to hire?' Business owners don't trust recovery

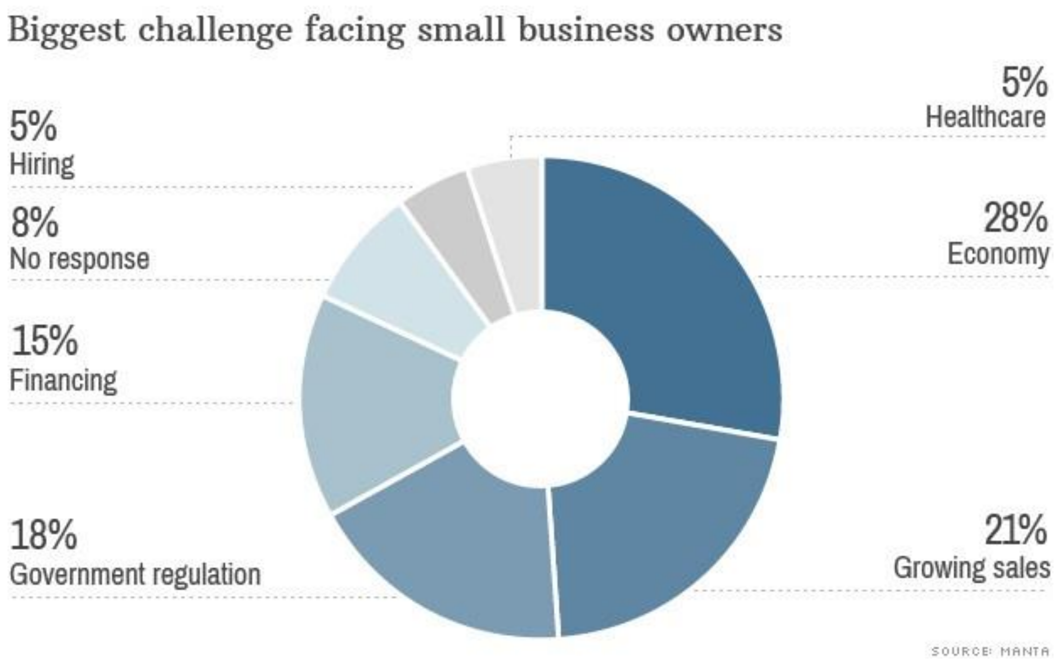
The economic recovery may be continuing, but small business owners aren't ready to put the rose-colored glasses back on.

According to an exclusive CNNMoney-Manta survey released August 19, 2014, 28% of small business owners said the economy is the "biggest challenge" they're currently facing, topping issues like sales, regulations and financing.

The survey polled over 1,500 small business owners across the country. Even those experiencing revenue growth are hesitant to test their luck. "We've done well as a small business, [and] banks are willing to lend us money," said Victoria Aguilar, the founder of a small law and consulting firm. "But is it safe to bring on another employee?"

Aguilar opened the The AR Group in Greenwood Village, Colorado, six years ago. Her firm, which employs six people, averages 10% to 20% revenue growth each year. She's wanted to expand her services to include immigration law for more than two years, but is hesitant.

Economy biggest challenge for small business owners



"It's a hard decision. There was a point in time where I wouldn't have been so reluctant," she said. "We're not entirely certain that the customer base is willing to spend money. People are trying to solve their own problems."

She also sees this in her clients, who are emerging and mid-market businesses.

"There's a timidity of opening purse strings," said Aguilar. "If the economy doesn't continue to heal, or reverses, all of us want enough [savings on

28% of small business owners said the economy is the "biggest challenge" they're currently facing

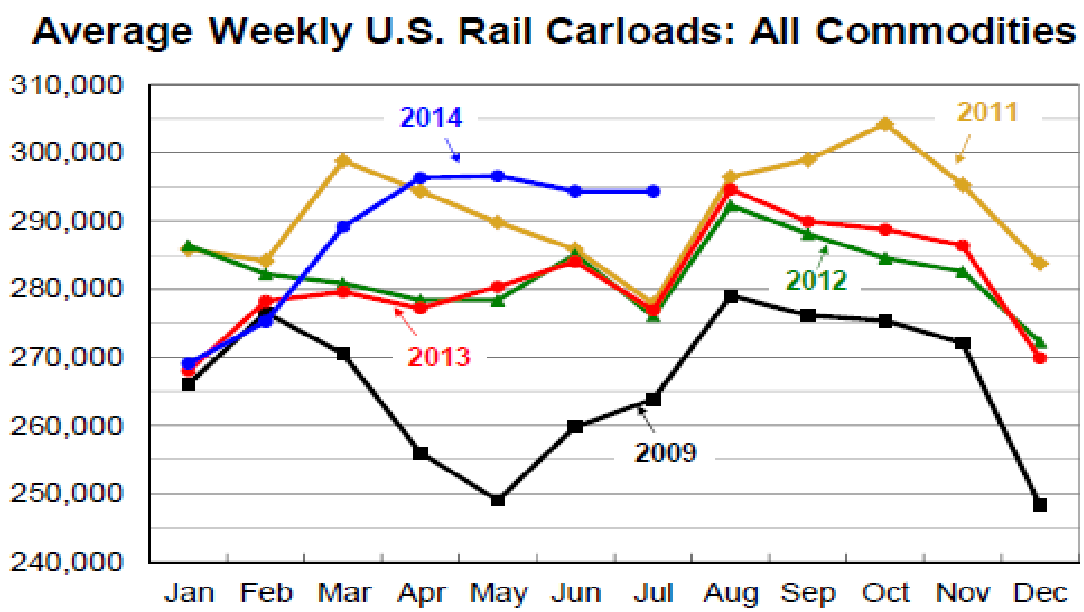
reserve] so we aren't another statistic."

Learn more at:
http://money.cnn.com/2014/08/19/smallbusiness/manta-economy/index.html?iid=SF_E_River

The Edge

The following graph is from the Association of American Railroads, Rail Time Indicators. It's worth noting that 2014 is experiencing an all-time high for average weekly U.S. Rail Carloads when measured across all commodities. This includes the significant drop off in coal as well as the run up in crude oil business. These numbers indicate that we have another phenomenon going on besides an overflow from bad weather. Although when one looks at December to February timeframe for all years on the graph the railroads didn't put their best foot forward during these months.

It's no wonder we're seeing delays in every type of commodity being shipped across all U.S. rail networks. We're also seeing Gross Domestic Product (GDP) leveling out at steady 2ish percentage growth which gives some comfort to the production sector and consumer.



Data are average weekly originations for each month, are not seasonally adjusted, do not include intermodal, and do not include the U.S. operations of CN and CP. Source: AAR

Taking a shipper or receivers perspective it's important to plan on at least partially adjusting to this new normal and review your fleet (railcars, locomotives, trucks and barges), infrastructure (track, loading and unloading) and reliability of assets (maintenance program reviews are especially important) to accommodate a slow-down in rail service as railroads readjust to higher volumes.

We look forward to earning your business!