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From a mechanical perspective, how to deal with railcars following floods and hurricanes

Salt water is destructive to the steel on railcars

Tealinc Touchbase Newsletter - September 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, tornadoes and wildfires. During your time of need, we understand you will require support in clean up and rebuilding efforts. To support you, Tealinc is offering the use of 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

Mechanical Brief with Steve Christian

Over the years, I have been involved with mechanical work on railcars that were involved in flooding. Roller bearings and air brake components were always the main areas of concern. The removal of mud caked in every nook and cranny of the cars was usually a very time-consuming task as well.

In more current times, Hurricane Katrina brought another element into the mix that I had not dealt with before; "salt water." Of course, salt water is very destructive to the steel on railcars. Even painted surfaces can't stand up to extended exposure to salt water. Once the steel is contaminated, only power washing and subsequent treatment with a neutralizing agent has a chance of halting the advancement of corrosion.

While Katrina was a devastating storm for railroad equipment, Hurricane Harvey may turn out to be much worse. The concentration of industry and serving railroads in Southeast Texas has the potential to be much more destructive to our industry. Forecasters paint a gloomy outlook for more severe tropical storms this season.

Based on that, I thought I would take this opportunity to review the applicable rules in the Field Manual of the AAR Interchange Rules that relate to this situation. RULE 95.A.16 states that the "HANDLING LINE" is responsible for damage from being submerged and that responsibility for roller bearings and air brake

AAR rules that deal with floods

components is dictated in the applicable rule. RULE 95.A.17 states that the “HANDLING LINE” is responsible for damage resulting from a storm.

RULE 36.A.2 (the applicable rule for roller bearings) states that roller bearings must be renewed when damaged from being submerged.   RULE 36.E.1 states that roller bearing equipped cars, submerged in flood, must have bearings reconditioned. It goes on to say that cars must not be sent home on own wheels with defect card applied. In other words, the car must have the bearings replaced before sending it out. RULE 36.E.2 states that the “OWNER” is responsible for all roller bearing failures other than Rule 95. All of this means that the “HANDLING LINE” is responsible for changing out roller bearings that have been submerged before the car moves.

RULE 4.A.1.c (the applicable rule for air brake valves and parts) states that submerged air brake valves are condemnable at any time. RULE 4.B.15 states that submerged air brake valve components must be replaced. Submerged brake cylinders must be cleaned and other submerged air brake components must be handled in accordance with Instruction Leaflet No. 2391, Sup. 1, Repair Track Maintenance-Freight Brake Equipment "AB" Type. Additional cleaning when brakes have been submerged includes disconnecting, cleaning, and reconnecting of all pipes from the pipe bracket, reservoir, cylinder, retaining valve, and auxiliary air device pipe brackets. It also includes the removal, cleaning, and replacement of all pipe brackets, pipe strainers, reservoirs, and volumes.
The last rule that I would like to cite is RULE 99 (CARS ON PRIVATE AND/OR NON-SUBSCRIBER TRACK). This rule states that if the railcar is submerged on the tracks of a non-railroad, the non-railroad is responsible for cost of repair, for loss or damage to cars in its possession. The handling line is responsible for ensuring that railcars received from a non-subscriber (or other than a railroad subscriber) meets the Mechanical Requirements for Acceptance of the Field Manual of the AAR Interchange Rules, Rule 88. The handling line will also ensure the railcar owner receives a “no charge” billing repair card.

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Recommendations on how to handle affected cars

If this seems overwhelming, Tealinc can guide you through the process

Here are my recommendations for you:

1. Trace all your cars and see if any cars are or were located at the vicinity and time of Hurricane Harvey or any similar storms.

2. If any cars seem to be stuck at a loader, unloader or railroad location for more than a usual amount of time, contact the party in possession of the car to see if there was any flood or other damage to the cars.

3. Ask for digital pictures and a written description of the condition of the car from the party in possession of the car.

4. Enlist someone locally that is well versed in AAR rules and railcar repairs to inspect the car and prepare an estimate of the cost of repairs.

5. Keep good records of all communications you have with all the relevant parties. You may need them later.

6. Even if the railroad informs you that all the wheels have been changed out and or the air brakes have been worked, send the car to a contract railcar repair shop for inspection as soon as possible. Be sure to have the contract shop test the steel to see if the salt contamination is still present in the car. Test kits are available.

7. Don't be surprised if this becomes a long and difficult process.

If this all seems overwhelming, Tealinc can guide you through the process. 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-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) [August 6, 2017] reported U.S. rail traffic for the week ending September 2, 2017, as well as volumes for August 2017.

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U.S. carloads down 0.3 percent August 2017 compared to August 2016

Grain, motor vehicles & parts, petroleum & petroleum products experienced a decline from August 2016 to August 2017

U.S. railroads originated 1,343,405 carloads in August 2017, decreased 0.3 percent, or 4,571 carloads, from August 2016. U.S. railroads also originated 1,401,081 containers and trailers in August 2017, up 5.6 percent, or 73,790 units, from the same month last year. Combined U.S. carload and intermodal originations in August 2017 were 2,744,486, up 2.6 percent, or 69,219 carloads and intermodal units, from August 2016.

In August 2017, seven of the 20 carload commodity categories tracked by the AAR each month saw carload gains compared with August 2016. These included: coal, up 25,926 carloads or 5.8 percent; crushed stone, sand & gravel, up 14,506 carloads or 12.1 percent; and metallic ores, up 4,550 carloads or 16.1 percent. Commodities that saw declines in August 2017 from August 2016 included: grain, down 24,565 carloads or 20.4 percent; motor vehicles & parts, down 10,321 carloads or 11.2 percent; and petroleum & petroleum products, down 8,362 carloads or 15.8 percent.

"Rail traffic in August was a mixed bag, with gains in coal and sand, among other commodities, offset by declines in grain, autos, and crude oil," said AAR Senior Vice President John T. Gray. "These results reflect the fact that different rail customer segments are always facing different market dynamics, including, during the last week of August, Hurricane Harvey."

Regarding Hurricane Harvey, Gray said, "Unfortunately, floods, tornadoes, and hurricanes are a fact of life, and railroads have long experience dealing with them and their aftermath. Railroads know that the quicker they can safely restore service, the quicker affected communities can obtain food, water, and other necessities; that supplies needed for rebuilding can be brought in; that debris can be removed; and that rail customers can return their operations to normal. In this regard, for railroads there is no alternative to long hours of very hard work in very difficult conditions, and that's what railroads have been putting in."

Excluding coal, carloads were down 30,497 carloads, or 3.4 percent, in August 2017 from August 2016. Excluding coal and grain, carloads were down 5,932 carloads, or 0.8 percent.

Total U.S. carload traffic for the first eight months of 2017 was 9,062,097 carloads,

U.S. carload traffic up 4.5% from the same period last year

up 4.5 percent, or 393,428 carloads, from the same period last year; and 9,352,108 intermodal units, up 3.4 percent, or 309,302 containers and trailers, from last year.

Total combined U.S. traffic for the first 35 weeks of 2017 was 18,414,205 carloads and intermodal units, an increase of 4 percent compared to last year.

Visit the AAR at:
https://www.aar.org/newsandevents/Press-Releases/Pages/2017-09-06-railtraffic.aspx

Industrial Inside

Oil weakens on fears Irma could dent US demand

Oil prices edged lower on Monday [September 11, 2017] on concerns that Hurricane Irma's pounding of heavily populated areas of Florida could dent oil demand in the world's top oil consuming nation.

Losses were capped by weekend talks between Saudi Arabia's oil minister and counterparts over a possible extension to a pact to cut global oil supplies beyond next March.

Brent crude oil futures for November delivery were down 33 cents at $53.45 a barrel while benchmark U.S. West Texas Intermediate crude advanced by 22 cents to $47.70.

Hurricane Irma knocked out power to nearly four million Florida homes and businesses on Sunday after millions were told to evacuate ahead of the storm.

"We believe that Irma will have a negative impact on oil demand but not on oil production or processing," said Goldman Sachs.

"We believe that Irma will have a negative impact on oil demand but not on oil production or processing," Goldman Sachs analysts said in a note. Irma is forecast to weaken to a tropical storm over northern Florida or southern Georgia later on Monday [September 11, 2017].

It comes on the heels of Hurricane Harvey, which struck the U.S. oil hub of Texas two weeks ago, knocking out a quarter of the nation's refineries, many of which are now restarting operations.

The two hurricanes are expected to inflict a "bearish shock" on oil balances in September of about 600,000 barrels per day (bpd), Goldman said.

The longer-term focus, however, was on discussions over a possible extension to the 15-month production pact between members of the Organization of the Petroleum Exporting Countries (OPEC)and non-OPEC producers including Russia and Kazakhstan.

The deal aims to curb an oil supply glut that has weighed on crude prices for more than three years.

Deal agreed last year to reduce output to 1.8 million bpd until March 2018 to help keep prices as high as $58 a barrel

The deal agreed late last year to reduce output by about 1.8 million bpd until March 2018 helped to keep prices as high as $58 a barrel in January, but they have since sagged as global stocks have not fallen as quickly as expected.

Saudi Arabia's Energy Minister Khalid al-Falih met his Venezuelan and Kazakh counterparts at the weekend to discuss an extension of the deal by at least three months, the Saudi energy ministry said.

Venezuela Energy Minister Eulogio del Pino said on Friday that global oil inventories remain too high and urged producers to look at exemptions granted to countries such as Libya and Nigeria and their effect on the market.

Iran has been producing about 3.8 million bpd in recent months

Elsewhere, Iran will reach an oil production rate of 4.5 million bpd within five years, a senior Iranian industry official said on Sunday. Iran has been producing about 3.8 million bpd in recent months.

Read the entire article at:
https://www.cnbc.com/2017/09/10/oil-edges-up-as-saudi-discusses-oil-supply-cut-extension.html

Financial Focus

Fed's Mester: Don't wait for inflation to rise before hiking rates

The Federal Reserve shouldn't wait until it reaches its economic goals before starting to tighten monetary policy, Cleveland Fed President Loretta Mester said Thursday [September 7, 2017].

One of the more consistently hawkish officials at the central bank, Mester pushed her case for a gradual but consistent pattern of rate hikes during a speech in Pittsburgh.

Unemployment rate stands at 4.4%

While the Fed has presided over a period of continuous declines in the unemployment rate, which currently stands at 4.4 percent, getting "good" inflation coursing through the economy has been elusive. As a result, some officials as well as market participants have pushed for the Fed to hold off on rate hikes until price and wage pressures start to rise.

But she said that could lead to the mistake of waiting too long that will in turn have economic consequences.

"Because we know that it takes some time for monetary policy to work itself through the economy, we can't wait until these policy goals are fully met to act," remarked Mester

"Because we know that it takes some time for monetary policy to work itself through the economy, we can't wait until these policy goals are fully met to act," Mester said in prepared remarks. "We need to assess what incoming information is telling us about where the economy is going over the medium run, and the risks around that medium-run outlook, and set policy appropriately."

Using the Fed's preferred measure, inflation is running about 1.4 percent annualized. That's below the central bank's 2 percent target.

Mester explained that while high inflation generally gets a bad rap, low inflation also is costly as "it can lead consumers and businesses to delay purchases and it increases debt burdens, either of which could slow the economy."

She acknowledged that inflation likely will stay below 2 percent "for somewhat longer" but will reach the goal in the next year. That assessment has been

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Inflation will more than likely stay below 2% "for somewhat longer"

Mester advocated for current intentions to begin running off some of the Fed's $4.5 trillion balance sheet "in the near future"

challenged lately, most recently by Fed Governor Lael Brainard, who said earlier this week that it's time for the Fed to accept that inflation is being held back by more than temporary factors.

The dovish talk combined with low inflation expectations has caused the market to reprice its expectations. Traders in the fed funds futures market now believe there won't be another rate hike until at least mid-2018, contrary to the Fed's own indications that one more will happen before the end of this year.

But Mester said the Fed should hold to its intentions.

"In my view, if economic conditions evolve as anticipated, I believe further removal of accommodation via gradual increases in the fed funds rate will be needed and will help sustain the expansion," she said.

Mester added that going ahead with periodic hikes "removes policy ambiguity at a time when uncertainty seems to be rising on other fronts."

She also advocated for the current intentions to begin running off some of the Fed's $4.5 trillion balance sheet "in the near future." Markets generally expect the Fed to announce at this month's Federal Open Market Committee meeting it will start rolling off its bond holdings as soon as October.

Learn more at:
https://www.cnbc.com/2017/09/07/feds-mester-dont-wait-for-inflation-to-rise-before-hiking-rates.html

The Edge
… with Darell Luther

The natural disasters this fall are unprecedented. The National Oceanic and Atmospheric Administration has listed thus far 11 named storms, six hurricanes and three major hurricanes – Harvey, Irma, and Jose.

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Steve Christian writes in this newsletter about very specific railcar requirements that are necessary to recover railcars that have been flooded to full Association of American Railroads (AAR) interchange status. In addition, he outlines the rules and regulations that are applicable to assignment of responsibility of these recovery efforts. Given the volume of railcar traffic in the southeast United States and Texas Gulf States the hurricane aftermath will have a significant impact on tens of thousands of railcars. If you've read Steve's article in depth you'll note that this level of thinking only comes with significant real-life experience. That experience is hard to find in today's operating environment.

So, here's the $100,000 question, "how are you managing your railcars?"

In our definition management of railcars means more than tracking or tracing of equipment or amassing huge amounts of data on railcar movements or mechanical data and storing it in an information system ready for recall at some future point. To capitalize on this data, it's important to have the expertise to review, recognize and react to what that data is telling you. This review has to be completed in a timeframe such that you can do something about the data you're looking at.

For example, if you're looking at railcar trace data in a smoothly operating corridor on a once a week rotation that is probably a sufficient timeframe to catch any bad order or stalled / out of route railcars and obtain resolution. However, if you're consistently moving railcars thru congested corridors such as Chicago or other major interchange locations than a daily review of your railcar movement is strongly suggested to proactively manage your rail equipment. In this case the real question is, "what's the value of a delayed railcar?" It's easy enough to calculate that value as the cost of ownership or possibly railcar lease cost, which are valid, but I'm willing to bet the real cost is in the value of a delivered product and the impact that has on cash flow, supply chain compliance, customer relationships and downstream product impact.

Where it concerns mechanical data and equipment health there's a two-step process required. Step one is to review your Equipment Health Management System (EHMS) and UMLER data and recognize what it's telling you. The EHMS is the AAR/Railinc system that railcar owners and managers can tap into to see wheel kips reading ranges, truck hunting detector results, air brake test requirements, reflectorization requirements any early warnings and various other data points. This is great information to start an advanced base plan of required future repairs, e.g. strategic repair and budget planning for future repair requirements.

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If you are managing a large group of railcars you'll need an information system for step two. Step two is the detailed review of AAR 500-byte repair data. AAR 500-byte repair data is a download of all the repairs that have been done to your railcar for the last month. This is where the review stage with a healthy dose of experience makes a significant difference on your rail equipment long term fleet health. In this stage, you're looking for trends in types of repairs, locations of repairs in relationship to your shipping patterns, quality of components and identification of bad actors (yes there are some railcar lemons). This is where you combine the strategic repair and budget planning with immediate requirements and react or execute your plan. This plan may include preventative maintenance measures (read Steve's article this is a classic preventative maintenance exercise), education of loading or unloading sites, locational review with the railroads or even a marketing review of specific repair locations, component review, etc. The key is to review, recognize and react to the situation at hand.

At Tealinc we've noticed some trends in the industry that appear to be costly to railcar users. One trend is to not timely trace and follow up on railcar movements. Tracing of railcars is pretty straight forward with free railroad sites giving very basic information to more advanced pay sites generating strategic management reports allowing for better analysis, planning and results. The shipper or receiver needs to decide the value of a lost railcar, delayed product, supply chain impact of this trade off. Tealinc traces, reviews these traces, recognizes delayed railcars and reacts to them by following up with the responsible party or handling railroad to get them moving again, saving the shipper real dollars.

Another trend is for railcar lessee's to sign up for premium full service maintenance leases and negate any of the required equipment health steps. While on the surface this may seem like a good strategy the cost is often a 15% to 30% premium over a standard net lease. Lessors aren't going to take any undue monetary risk. Most full service leases are modified so that the lessee pays for any shipper or receiver damage while the lessor covers AAR/FRA damage. The lessee number one issue seems to be the lack of consistency in repair bills over the course of the lease. Tealinc has derived a system for this inconsistency whereby Tealinc is working with several customers that pay a consistent dollar amount per railcar per month into a monthly maintenance accrual while Tealinc uses its' internal expertise and maintenance systems to proactively manage maintenance requirements. The savings is refunded back to the customer at the end of each calendar year.

We look forwarding to earning your business!

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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. We look forward to being your one-stop shop for all your transportation needs.

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