



## 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 – September 2018

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Visit our [website](#) for a listing of our railcar needs, our available railcars for sale or lease and to review our many rail transportation services or contact us [direct](#)

#### Tealinc is Growing- We're hiring!

Tealinc, Ltd. is growing and looking to add a member to our team who has a specific set of talents. If you are looking to be heard and want to make an impact where you work, this position may be for you. The **Manager Value Creation – Operations** position ([click here for the job description](#)) is a senior leadership position that combines railcar fleet management, mechanical inspection and planning, new business development and marketing and sales into one position where you can be part of a unique team that drives value for our customers. We're looking for that unique individual who wants to be heard and can make a difference.

Contact [Tealinc](#) to apply today!

#### Tealinc Equipment

...Did you know that Tealinc Buys, Sells & Leases Rail Equipment?  
We also offer rail transportation consulting and management services!



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**Julie Mink will be representing Tealinc at the fall NEARS meeting this month**

#### Industry Events – NEARS Meeting

The 2018 annual North East Association of Rail Shippers (NEARS) meeting will be held in Westchester, New York on September 25<sup>th</sup>-27<sup>th</sup>. [Julie Mink](#) will be representing Tealinc at the fall meeting.



Contact [Julie Mink](#) direct to line up a meeting.

**Developing alternative transportation options**

#### The Edge with Darell Luther



Last month, [my article](#) highlighting the detailed process of establishing a rail site to ship and receive by rail generated a lot of interest. There seems to be a groundswell of shippers and receivers considering converting to rail in part due to the capacity restrictions showing up in the trucking industry.

**Trucking industry deals with the negative impact of electronic logging devices and lack of qualified drivers**

In our past and current visits with customers, I have heard many times the phrase, “our company has to develop alternative transportation options”. In the trucking freight industry, Electronic Logging Devices (ELD) are getting most of the blame for these shortfalls. The negative impact ELD requirements have made on efficiencies is interesting. There are a lot of reasons to have ELD in place, not the least of which is safety; however, countless examples of managers driving 10 miles from a terminating location to relieve a truck driver because he/she ran out of time begs of a reasonableness test. Before ELD issues stole the limelight, the biggest concern was (and still remains) the lack of qualified truck drivers. Qualified truck drivers seem as hard to find as that monster fish you are casting in every direction to locate.

The other part of the shippers’ difficulty in getting good rail transportation options is being impacted by the overall increase in rail shipment originations.



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**Note on the Association of American Railroads (AAR) originated carloads and intermodal rail traffic graph on the right, the strength we are seeing in originated rail traffic in 2018**

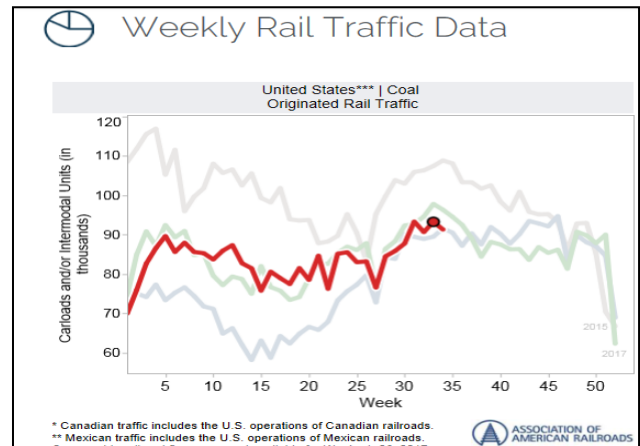
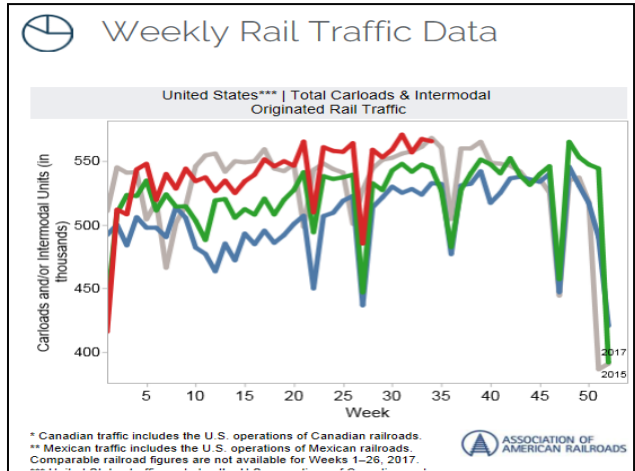
**In red in the graph on the right you'll see 2018 coal originated rail traffic in comparison to prior years' originated carload statistics**

Total combined US rail traffic for the first 34 weeks of 2018 was up 3.9% over the same time last year.

A good deal of this traffic gain is intermodal, grain, petroleum and petroleum products and metallic ores and metals. What's interesting is that these gains are being sustained even though coal has been mediocre.

What really makes this interesting is that there appears to be a little bit of every commodity group making up the growth. This poses a logistics challenge for railroads in general. To adequately serve customers they need to be better at gathering traffic into a central location, classifying railcars, transporting mixed volumes and then redistributing these railcars to final destinations. These challenges are a lot more difficult than running unit trains from one origin to one destination.

This dilemma raises an issue you should take to heart, "who's watching your equipment" and making sure it's handled efficiently? Tracking, tracing and



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**Tealinc manages 90% of the railcars we lease to our customers- Contact Tealinc today to see how we can be of benefit to your business**

**The changing roles of railroads and contract shops**

**Mobile repair services can perform air brake tests on cars that Class I's are not willing to accept and run through their rip tracks**

pushing railcars out of yards and delayed statuses into service is key to maximizing the opportunity to earn a return on your commodity or product. If you don't have a process for doing so you might want to develop one or outsource the work. Here at Tealinc we manage 90% of the railcars we lease to customers, so they can focus on their core competency. It is not always fun but is often rewarding. We also conduct transportation audits for customers where we take current movement data or generate railcar movement data over time to establish railcar cycle time expectations. We have always found opportunities that have saved our clients' money. ***We look forward to earning your business!***

*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](mailto:darell@tealinc.com).*

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#### Mechanical Brief with Steve Christian



Railroads and Contract Shops are changing their roles in railcar repairs and maintenance. As a lead-in to that discussion, I would like to discuss Railroad versus Contract Shop railcar repair pricing with a recent incident as an example.

We have a customer who needed to move a group of railcars that had been in storage for a few years into service with a Class I railroad. Some of the cars were over their 5-year single car air brake test due date. The Class I was not willing to accept the cars and run them through their Rip Track (railcar repair track) to test the air brakes. The railroad required them to be tested, necessary air work performed, and results recorded in UMLER before they would accept the cars. As the result, I enlisted the services of a Contract Shop that offered mobile repair services in the area. I have known them for years and had complete confidence in their ability to get it done right and in a timely manner. The shop pulled a portable air compressor to the storage track and tested all the "out of date" cars. As you can imagine with cars in storage for years and the air brakes not being operated, there



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**Railroads have competitive rates compared to contract shops for many billing job codes used**

**A rule to keep in mind, is that if it a common repair (i.e. air brake test), it is generally cheaper to have the railroad fix it if you have that option**

**Contract shops are the way to go if need labor intensive work performed on your railcars**

were some leaks, overdate air hoses and inoperative valves that had to be changed. The Contract Shop sent the billing repair cards (BRC's) to us for review before sending them on to the customer. Based on my experience with working air at remote locations, the BRC's looked reasonable to me; however, when the customer received them they were upset with the pricing. This customer had other cars in service and has been receiving and paying railroad bills regularly. They took the Contract Shop bills and compared them on a Job Code by Job Code basis to Railroad BRC's that they had paid. They were surprised that the Railroad was cheaper on many of the Job Codes.

The customer e-mailed some of their Railroad BRC's that they used for comparison and asked why the Contract Shop would charge more. The fact that the Contract Shop performed the work away from their shop on a mobile basis explained part of the higher labor cost; however, I went through the analysis myself, Job Code by Job Code, and explained why the Contract Shop charged more. There is no need to repeat my analysis in this article, but I would like to make a few comments about why the Railroad has more competitive pricing than Contract Shops in some cases and not in others.

As a rule of thumb, the most common repairs that happen daily are usually cheaper when a Railroad does them. Take air brake work for instance. The Class I's have tremendous buying power and hammer out annual or multi-year contracts that keep their air brake material and most other high-use material prices lower than even the largest Contract Shop networks. Contract Shops, however, usually charge around 50% of the full AAR labor rate (Job Code 4450). As the result, when you have expensive material and low man hour work, the railroad is almost always cheaper. That was the case with the air brake work that our customer had performed.

On the other hand, contract Shops are always cheaper when the work is labor



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**Railroads try to catch defects and repairs them to allow the railcar to continue in normal operations**

**It is becoming more common for mechanical maintenance pools and repair work on short lines and regionals have been contracted out to non-union contractors**

intensive. Anything that requires a large amount of welding for program work or wreck repair are prime examples. Few railroads do any of this work for themselves anymore. They find it is cheaper and timely to have a Contract Shop do it.

Now let's discuss the changing roles that the Railroads and Contract Shops are taking in railcar repairs. When you get right down to it, you rarely have a choice where your work is performed between Railroads and Contract Shops. Unfortunately, the Railroad generally makes the decisions for you (or forces you to make a decision you may not prefer). You never can shop for the best deal between them. The railroad catches defects and repairs them as the railcars operate in normal operations. The Railroad does have options to handle Rule 1, Rule 107 and Rule 108 incidents; however, as time goes by, they are abdicating that role and just asking for Home Shop Disposition. That leaves Contract Shops to play a bigger role. As to Contract Shop pricing, shopping around can get you a better labor rate and lower material markup.

More and more, mechanical maintenance pools and repair work on short lines and regionals have been contracted out to non-union contractors. These were always exclusively Railroad functions. Class I Railroads have cleverly maneuvered mechanical inspection and repair of unit trains from Railroad union personnel to non-union contractors by performing them on private (non-railroad) locations.

Large railroad back shops have become almost extinct. I know of one large Class I back shop that has survived in a limited capacity to appease the union and get concessions on other matters. The sad thing is that the work that is accomplished there is so poor that most of the cars that are released are sent to Contract Shops to fix their screw ups before hauling a load. How long will it be before the Class I Railroads exit railcar repair altogether?



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**Railroad transportation can be difficult to keep up with.  
Let [Tealinc](http://tealinc.com) help!**

**August 2018 carloads up 3.8% compared to August 2017**

**Commodities that experienced an increase from August 2017 to August 2018 were grain, petroleum & petroleum products and chemicals**

The silver lining of the transition from Railroad Shops to Contract Shops is in the quality of the repairs made. Sometimes the cost is a little more than what the AAR Price Matrix allows but the quality of the work is worth it. Railroads only need to meet minimum standards while Contract Shops need to please customers - it makes a difference!

The details of the ever-changing world of railroad transportation is difficult to keep up with unless you are in it every day. As always, Tealinc stands ready to employ our many years of experience, varied talents and active railroad industry engagement 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](mailto:steve@tealinc.com).*

#### Railroad Traffic

The Association of American Railroads (AAR) today [September 5, 2018] reported U.S. rail traffic for the week ending September 1, 2018, as well as volumes for August 2018.

U.S. railroads originated 1,386,026 carloads in August 2018, up 3.8 percent, or 50,335 carloads, from August 2017. U.S. railroads also originated 1,442,920 containers and trailers in August 2018, up 5.1 percent, or 70,198 units, from the same month last year. Combined U.S. carload and intermodal originations in August 2018 were 2,828,946, up 4.5 percent, or 120,533 carloads and intermodal units from August 2017.

In August 2018, 16 of the 20 carload commodity categories tracked by the AAR each month saw carload gains compared with August 2017. These included: grain, up 18,989 carloads or 19.8 percent; petroleum & petroleum products, up 12,780



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**“The U.S. economy has been improving since the 2016 slow down and freight railroads are committed to maintaining the economic momentum by moving goods safely and efficiently for their customers.”-  
John T. Gray- AAR Senior VP of Policy and Economics**

**Wyoming oil basin deals rise as companies look past Permian**

carloads or 28.8 percent; and chemicals, up 11,911 carloads or 7.8 percent. Commodities that saw declines in August 2018 from August 2017 included: coal, down 15,410 carloads or 3.2 percent; nonmetallic minerals, down 4,034 carloads or 16.6 percent; and metallic ores, down 1,061 carloads or 3.2 percent.

“August was a very good month for U.S. rail traffic with 16 of the 20 carload commodity categories the AAR tracks registering higher carloads in August 2018 than in August 2017, the most since January 2015,” said AAR Senior Vice President of Policy and Economics John T. Gray. “The U.S. economy has been improving since the 2016 slow down and freight railroads are committed to maintaining the economic momentum by moving goods safely and efficiently for their customers. Still a concern, however, trade policy discussions that add a level of uncertainty to future economic growth.”

Excluding coal, carloads were up 65,745 carloads, or 7.6 percent, in August 2018 from August 2017. Excluding coal and grain, carloads were up 46,756 carloads, or 6.1 percent. Total U.S. carload traffic for the first eight months of 2018 was 9,181,733 carloads, up 1.9 percent, or 172,712 carloads, from the same period last year; and 9,704,619 intermodal units, up 6 percent, or 547,613 containers and trailers, from last year. Total combined U.S. traffic for the first 35 weeks of 2018 was 18,886,352 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-august-and-the-week-ending-september-1-2018/>

#### Industrial Inside

NEW YORK/HOUSTON (Reuters) - Oil companies looking for the next big find are wading into the Powder River Basin of Wyoming, where pipelines are not congested and land is cheaper than in Texas' Permian Basin, the world's fastest-



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**U.S. crude prices have increased 48% over the past year leading to a series of largely undisclosed land deals**

growing oil producing region.

A series of largely undisclosed land deals is fueling interest in its conventional and shale formations, according to people familiar with the transactions who requested anonymity this week to discuss the confidential deals. U.S. crude prices have risen 48 percent over the last year, also spurring deals.

Rebellion Energy, an Oklahoma firm backed by private equity firm NGP Partners, this month paid more than \$100 million, or \$5,200 an acre, for 19,000 acres from Liberty Resources LLC, five sources familiar with the transaction said. Vermilion Energy, recently snapped up 55,000 acres from Massif Oil & Gas for \$150 million, sources familiar with the deal said. Navigation Powder River LLC last week paid about \$10 million for 3,000 acres, a person close to the deal said. Rebellion, NGP Partners and Vermilion did not respond to requests for comment on Tuesday [September 4, 2018]. Massif declined to confirm details of the transaction.

“There are a lot of similarities between where the Powder River is today and where the Permian Basin was just a few years ago,” said Edward Geiser, managing partner at Juniper Capital Advisors, the financial backer of Navigation.

U.S. shale drillers turned the Permian Basin in western Texas and southeastern New Mexico into the most active and productive U.S. oil field after they figured out how to exploit its multiple stacked layers of oil-soaked rock.

But the surging activity there has clogged pipelines, soaked up available labor and left the region to face at least a year of slower growth. Its higher land costs, challenges for getting pipeline access and water constraints have prompted private equity investors to seek areas with higher returns.

Read the entire article at: <https://www.reuters.com/article/us-usa-shale-wyoming/wyoming-oil-basin-deals-rise-as-companies-look-past-permian-idUSKCN1LD2EE>

**U.S. shale drillers turned the Permian basin in western Texas and southeastern new Mexico into the most active and productive U.S. oil field after they figured out how to exploit its multiple stacked layers of oil-soaked rock**



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**Fed's Bullard makes case again for halting interest rate rises**

**Yield curve on U.S. treasuries, suggest investors see slower growth after this year and no danger of inflation ahead**

#### Financial Focus

U.S. Federal Reserve should hold off on further interest rate rises because the stance of monetary policy is already at neutral or possibly restrictive, St. Louis Federal Reserve Bank President James Bullard said on Wednesday [September 5, 2018].

Bullard has repeatedly raised the alarm over the central bank's plan to keep raising its benchmark lending rate and pointed to financial market signals as the best indicator of how policymakers should proceed.

"U.S. monetary policymakers should put more weight than usual on financial market signals in the current macroeconomic environment," Bullard said in prepared remarks to a financial market conference in New York. "Handled properly, current financial market information can provide the basis for a better forward-looking monetary policy strategy."

Those signals, such as the yield curve on U.S. Treasuries, suggest investors see slower growth after this year and no danger of inflation ahead.

An inverted yield curve, when short-term borrowing costs rise above long-term ones, has preceded nearly every U.S. recession in recent times. Bullard expects an inversion late this year or next.

Bullard's colleagues, however, look set to continue with increased borrowing costs with part of the rationale being that the low unemployment rate and strengthening economic growth should spur a rise in inflation.

The Fed's preferred measure of inflation has finally reached the Fed's 2 percent target rate this year after more than six years of undershooting it. Investors fully



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#### **Fed's anticipate a rate increase at their next meeting at the end of September**

expect an interest rate rise at the Fed's next policy meeting on Sept. 25-26, and again in December. The central bank has already lifted rates twice this year.

But focusing on a theoretical relationship between low unemployment and a subsequent rise in inflation to guide monetary policy is erroneous, according to Bullard. "One of the great strengths of financial market information is that markets are forward-looking and have taken into account all available information when determining prices," he said.

**Learn more at:** <https://www.reuters.com/article/us-usa-fed-bullard/feds-bullard-makes-case-again-for-halting-interest-rate-rises-idUSKCN1LL1SQ>

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