



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 –January 2018

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**Tealinc Now Taking
Scholarship
Applications**

**The owning and
managing of railcars
can be an
overwhelming process.
Let Tealinc help!**

Tealinc 2018 Scholarship Announcement

Tealinc is now accepting applications for our 2018 scholarship! Applications are due March 30, 2018.

Tealinc, Ltd. is an adamant supporter of post-secondary education providing over \$30,000 in scholarships at the local and national level over the past several years. The scholarship program is offered to a child (or dependent) of a person working in an industry that raises, manufactures or produces goods, provides services or is involved in transporting them. Examples of industries supported are farming/ranching, coal mining and transport, scrap steel recycling, steel production, fertilizer, minerals (iron ore, potash ash, soda ash, etc.), commodity and finished goods transportation (rail, truck, barge), grain, grain products, food manufacturing, lumber, building materials, aggregates, stone, sand and gravel, etc.



[Learn more and download the Scholarship application.](#)

Tealinc Update

The owning and managing of railcars can be an overwhelming process. Tealinc offers a boutique of management and consulting services as well as railcar leasing to help alleviate any of your concerns and help plan for your company to have a successful and prosperous year. Let Tealinc's [experienced team](#) to provide value to your company's supply chain.

To get you started, we have created a [list of potential questions](#). If your questions require a consulting engagement, we'll outline the process for your review and discuss the next steps with you. Our mission is to *Create Value* for our clients by



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Check out Darell Luther’s latest publication in the January 2018 edition of *Pit & Quarry* “Simplifying The Selection of Aggregate Railcars”

2017 was a year of mixed reviews in the rail industry

2017 weekly rail traffic trend better than 2016

providing economical Transportation Solutions that are sustainable in the market environment in which our customers participate.

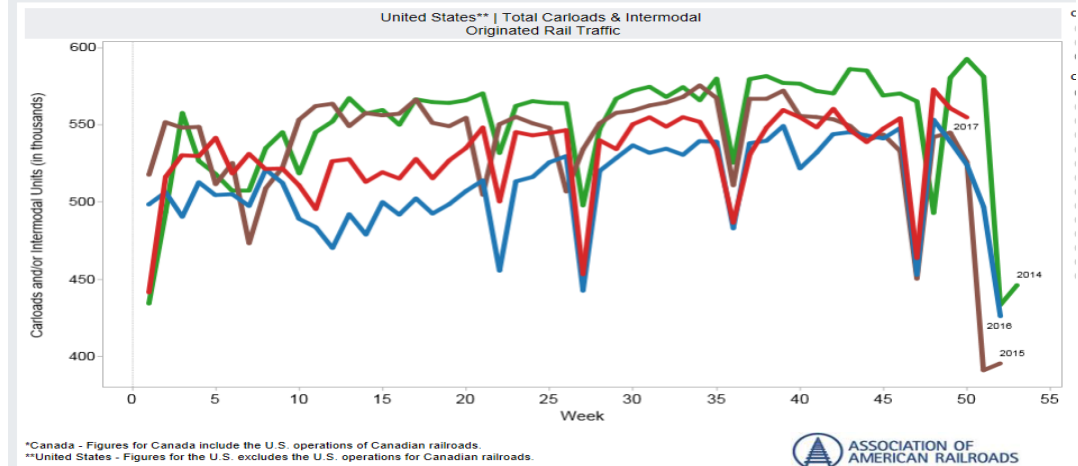
The Edge with Darell Luther

It’s hard to believe that 2018 is here already. The year of 2017 came in with mixed reviews.



Railcar loadings will come in at right around 13 million, better than the mid-12 million railcar loading levels of 2016 but less than the previous four years which were in the 13.3 to 13.9 million level. You can tell by reviewing the weekly rail traffic data graph below that the trend has been consistently better than 2016 but barely better than the previous two years.

WEEKLY RAIL TRAFFIC DATA



The big drivers of volume remain coal and grain. Coal rebounded somewhat year over year but is still off significantly from its previous year railcar loadings.



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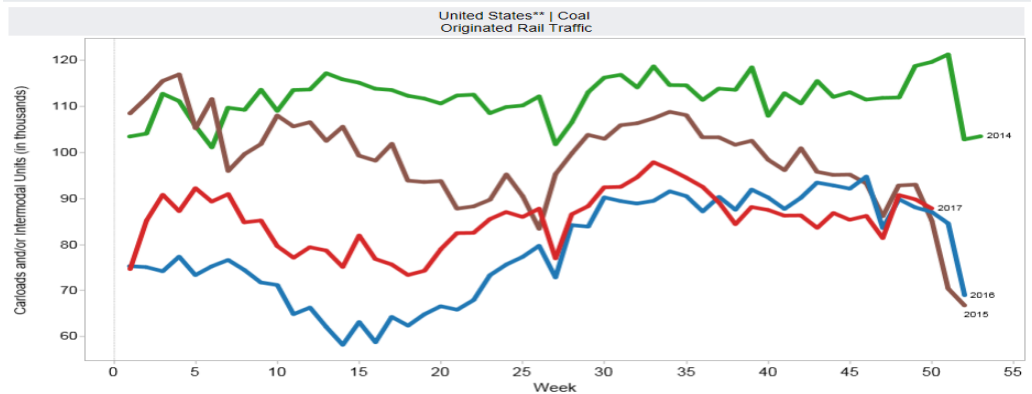
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Biggest volume drivers were coal and grain

Grain is dependent upon a strong export market and healthy domestic market

Despite the growth, current numbers remain lower than the recessionary times in 2009. Rebounding from an absolute bottom in 2017 isn't saying much except *maybe* the coal business has possibly found the bottom.

WEEKLY RAIL TRAFFIC DATA



*Canada - Figures for Canada include the U.S. operations of Canadian railroads.
**United States - Figures for the U.S. excludes the U.S. operations for Canadian railroads.



Grain is another animal being heavily dependent upon a strong export market and a healthy domestic market within the United States. As you can see on the graph below grain started out the year with a bang and then mid-year declined and moved seasonally but not with the gusto we saw earlier.



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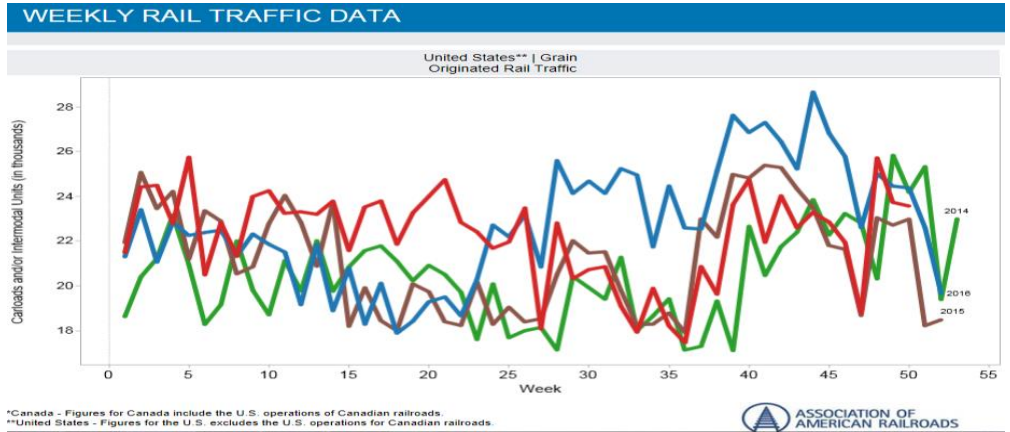


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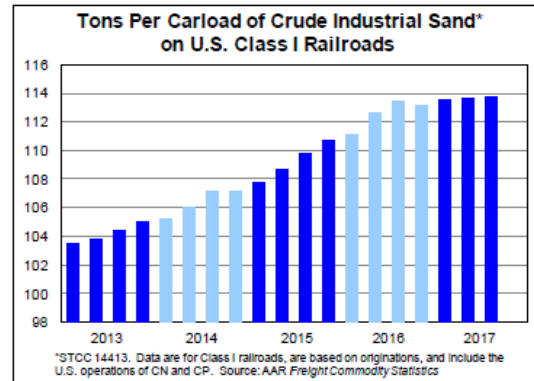
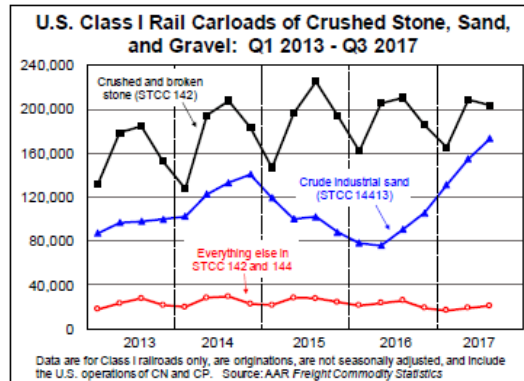
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Fracking and the amount of sand has altered the sand railcar originations



The bright spot has been frac sand originations. The change in the type of sand being used for fracking and the amount of sand per well has significantly changed the sand railcar originations picture dramatically. Borrowed from the AAR the graph and chart below shows a depiction of the sand growth.

There was a slight positive or negative on absolute numbers for all other commodities except for petroleum



All other carloads are slightly positive or slightly negative on absolute numbers with exception of petroleum products which is directly tied to the price of oil and pipeline access and capacity.



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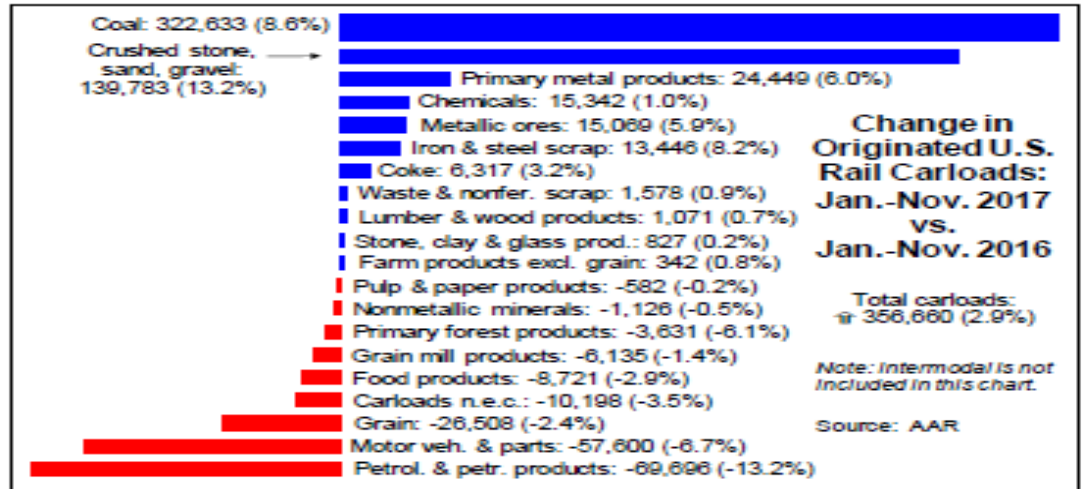
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Macro trends are good to understand but how they affect your individual operation is what's important

We encourage you to look hard at what keeps you up at night in the rail, truck, barge transportation world and give us a call to discuss it. We'll focus on identifying the best



Macro trends are good to understand but how they affect your individual operation is what's important. Our expectations are that cycle times will remain steady with geographic improvements but no overall significant changes. Expect weather impacts and delays this winter, it looks like it's going to be a cold one. Also expect rail rate increases. Wall Street requires better earnings every year and 2018 will be no exception; therefore, rates and service will remain key to railroad success as they will to your logistics program and your success.

Here's where Tealinc's multiple services come in!

Let me give you some examples of Tealinc specialties and how we can help you be successful in 2018.

If you're like many and have multiple facilities shipping to multiple destinations, you may not be able to make heads or tails of where railcars go when and where and worse yet how the railcar cycle times are really performing. Tealinc can help figure out cycle times, actively decrease delayed railcar instances, match up shipment requirements and generate management reports that help explain what's



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solution applicable.

Tealinc can help your operation identify cycle times, decrease delayed railcar instances and generate value driven management reporting

With decades of mechanical and AAR billing experience, Tealinc can generate reports and offer advice to increase levels of value within your organization

Contact Tealinc today, to assist you with strategizing your 2018 company goals and objectives

going on where and when. As a result, you get a good management picture of events, better utilization of your railcar fleet and if you're long railcars we can help place them in new homes. If you're short we can supply (sell and/ or lease) additional railcars for your service.

Do you have 'data overload'? With all those DCT's, bad order railcars and 500 Byte files from the AAR, you've got an immense spreadsheet with data and your boss may want to know what maintenance costs are for a certain group of railcars and what level of comfort you have that they're where they should be in terms of repairs. Tealinc can take the data, run it through our software system, review it by staff that has decades of mechanical expertise and generate reports and offer advice on mechanical maintenance management that will increase your levels of value within your company and keep the boss happy as well. As a result, you can work on more meaningful items (shop contracts, preventative maintenance programs, etc.) creating even more value for your company.

Capital budgets shot but you still have a little room in the operating budget and you're trying to figure out how to jump start the year? Tealinc can take your rail assets to the financial market or buy them ourselves and lease them back to your company (called a "sale-leaseback" – find out more by [contacting Tealinc](#)) resulting in financial positioning that's a better fit for your strategic goals and objectives for your company.

We encourage you to look hard at what keeps you up at night in the rail, truck, barge transportation world and give us a call to discuss it. We'll focus on identifying the best solution applicable.

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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Railcar performance and maintenance needs change over time – are you prepared?

Railcar builders continually monitor the performance of the cars they produce so they can enhance their design

Builders keep close relationships with car owners, so they can make engineering and production changes for future railcar builds

Mechanical Brief with Steve Christian



The Association of American Railroads and the Federal Railway Administration allow railcars to operate for 40, 50 or 65 years depending on certain circumstances which I won't get into here ([contact me](#) if you need to better understand). Over multiple decades, railcars will probably change ownership multiple times before they are used in-plant or cut up for scrap. The original railcar owner has a huge advantage of warranty support from the builders and component manufacturers.

The major railcar builders have always monitored how the railcars they produce perform over time. Sales Managers and Customer Service Representatives for the builders establish and maintain relationships with railcar owners to monitor the mechanical condition and performance of their railcars. They also monitor the mechanical condition and performance of railcars built by competing builders. Besides the customary trashing of competitor's builder's railcars, they pass the information on to their engineering departments. They can use the woes of a competing builder to make changes to their railcar design.

By keeping close relationships with car owners, builders can become aware of problems before they spin out of control. The builder will take steps to remedy the situation through on-site inspections, engineering modeling, design fixes and monitoring the application of the fixes at railcar repair facilities.

The builder will also use this information to craft fixes for the benefit of other customers. Some of the builders post their findings and fixes on their website for reference by customers and repair shops. The builders also use this information to make engineering and production changes for future railcar builds.

This sounds like a pretty airtight system to take care of mechanical issues on newer



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Change in railcar ownership usually means a change in ownership that affects railcars condition and performance

Six changes identified that affect the overall health of a railcar

railcars. It certainly is for railcars that are either in their warranty period or within a limited number of years after that; however, as I mentioned earlier, most railcars change ownership multiple times during their life. A change in ownership almost always means a change in circumstances that affects railcar mechanical condition and performance. Changes like these and many others can also effect railcar mechanical condition and performance:

1. Service Changes. A change from one commodity to another (especially acidic or caustic) may speed up corrosion of the surfaces that encounter the lading.
2. Means of Loading and Unloading. Abusive loading or unloading practices will have adverse effects on the railcars. Shakers/vibrators are one of my pet peeves. Once the car is unloaded, shut the shaker off. Leaving the shaker/vibrator on a car for too long causes a tremendous amount of damage to railcars.
3. Route Traveled. Each railroad stresses railcars in different ways. Roadbed and train velocity are just two of many examples of this but others exist and should be contemplated.
4. Maintenance Practices. Just like your automobile, good railcar maintenance practices cut down on failures and extends the life of your railcars. A preventative maintenance program is a must. We've implemented many plans and are developing additional plans now and [can help you too!](#)
5. Mileage. Again, just like automobiles, low miles are generally good and high miles are generally troublesome.
6. Method of switching cars at loading and unloading sites. Besides locomotives and trackmobiles, I have seen tractors, loaders, forklifts, cranes, winches and pickup trucks used to move cars. All worked but some damaged the cars every time they were used. Cars should be inspected



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Tealinc has many years of mechanical knowledge. Contact [Steve Christian](#) with your railcar concerns

“Rail traffic finished on a positive note” - AAR Senior VP John T. Gray

upon delivery to a location and prior to departure to document any damage and repair it as soon as possible.

My point with all this is that the problems that appear when the cars were in the early years are different than they are later. Once the warranty has been in the rearview mirror for a while, where do you turn when problems arise? The car builders will always listen to your problems and share what they know; however, the inspection, engineering and shop management services are no longer available unless you contract for them.

This is where experience counts. You need someone that has seen a wide variety of problems on a wide variety of railcars over decades of time from the “Car-Knocker’s” perspective. Tealinc has that level of experience and resources to get your railcar issues resolved and we’re looking forward to being of assistance 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 [January 3, 2018] reported U.S. rail traffic for the week ending December 30, 2017, as well as volumes for December 2017 and all of 2017.

U.S. railroads originated 998,168 carloads in December 2017, up 2.5 percent, or 24,606 carloads, from December 2016. U.S. railroads also originated 1,065,965 containers and trailers in December 2017, up 5.3 percent, or 53,980 units, from the same month last year. Combined U.S. carload and intermodal originations in December 2017 were 2,064,133, up 4 percent, or 78,586 carloads and intermodal



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For the first time in six months, carloads saw a gain and intermodal traffic up for 11 months in a row

Crushed stone, sand & gravel, chemicals, and metallic ores continue to see a gain from December 2016 to December 2017

Need railcars to ship aggregate?



Tealinc has railcars for you!

units from December 2016.

“Rail traffic finished 2017 on a positive note,” said AAR Senior Vice President John T. Gray. “In December, total carloads were up for the first time in six months, and 14 of the 20 carload categories we track saw year-over-year gains - the most for any month in almost three years. Meanwhile, intermodal volume was up for the 11th straight month and set a new annual record, breaking the previous mark set in 2015.”

In December 2017, 14 of the 20 carload commodity categories tracked by the AAR saw carload gains compared with December 2016. These included: crushed stone, sand & gravel, up 15,632 carloads or 23.1 percent; metallic ores, up 6,875 carloads or 35.2 percent; and chemicals, up 4,277 carloads or 3.5 percent. Commodities that saw declines in December 2017 from December 2016 included: grain, down 5,542 carloads or 6.1 percent; motor vehicles & parts, down 2,625 carloads or 4.1 percent; and nonmetallic minerals, down 1,424 carloads or 8.9 percent.

“Rail traffic is a useful gauge of the state of the economy, and it shows that the economy's momentum strengthened in the fourth quarter of 2017,” Gray added. “Coal, grain, and petroleum products are not nearly as GDP-dependent as most other categories of rail traffic. If you exclude them, U.S. rail carloads were up 5.2% in the fourth quarter of 2017, their biggest quarterly percentage gain in more than three years. Railroads are well positioned to provide the safe, efficient and cost-effective service our economy will need if it is to continue to grow in the months and years ahead.”

Excluding coal, carloads were up 23,290 carloads, or 3.6 percent, in December 2017 from December 2016. Excluding coal and grain, carloads were up 28,832 carloads, or 5.2 percent.

Total U.S. carload traffic for 2017 was 13,478,126 carloads, up 2.9 percent, or



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Crude oil prices could pressure US natural gas prices in 2018

US natural gas rigs rose while natural gas prices fell over the past 12 months

381,266 carloads, from the same period in 2016; and 14,011,834 intermodal units, up 3.9 percent, or 521,121 containers and trailers, from 2016. Total combined U.S. traffic for the full year of 2017 was 27,489,960 carloads and intermodal units, an increase of 3.4 percent compared to last year.

Visit the AAR at: <https://www.aar.org/newsandevents/Press-Releases/Pages/2018-01-03-railtraffic.aspx>

Industrial Inside

Baker Hughes, a GE company, released its US natural gas rig count report on December 29, 2017. It reported that natural gas rigs fell by two or 1.1% to 182 on December 22–29, 2017. However, US natural gas rigs rose by 47 or 35% in 2017. Natural gas rigs rose as US crude oil (USO) (UWT) prices were trading near multiyear highs.

US natural gas rigs rose 37.9% in the last 12 months. However, US natural gas prices (UGAZ) fell almost 21% during this period. US crude oil prices rose 12.3% during the same period.

Energy companies (XES) (XOP) increased their spending plans for 2017 as crude oil prices recovered to multiyear highs. Higher oil (UCO) and natural gas (DGAZ) prices would increase the US drilling activity. It favors energy producers and drillers like EQT (EQT), Rowan Companies (RDC), Diamond Offshore (DO), and Newfield Exploration (NFX).

Financial services company Cowen expects that exploration and production companies in the US will increase their capital expenditure for 2018. Higher capital expenditure in 2018 would increase the US drilling activity. Higher oil prices in 2018 could be the reason for higher capital spending.



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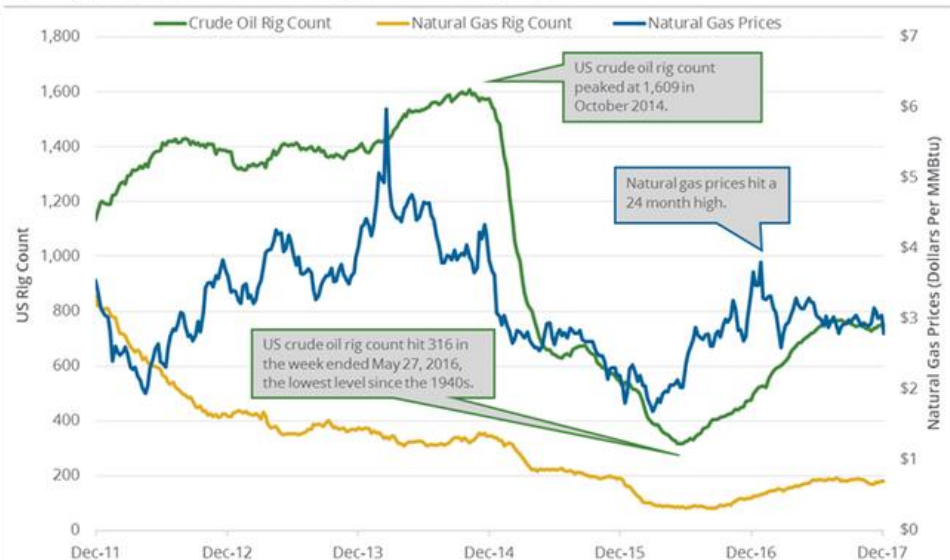
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Energy companies increased their spending plans for 2017 as crude prices recovered

Analysts expect that exploration and production companies in the US will increase their 2018 capital expenditure

Relationship between Rig Count and Natural Gas Prices

Natural gas prices more related to crude oil rig count than natural gas rig count



Source: Baker Hughes, NYMEX

Market Realist

Crude oil prices and natural gas prices

US natural gas rigs were near a ten-week high, while US oil (DBO) prices were near a 30-month high. Natural gas is usually an associated product of crude oil. Higher oil prices would increase the US crude oil rig count, which would also drive natural gas supplies. Higher US natural gas supplies would pressure natural gas (UGAZ) (UNG) prices.

Read the entire article at: <http://marketrealist.com/2018/01/will-crude-oil-prices-pressure-us-natural-gas-prices-2018/>



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Fed raises interest rates, keeps 2018 policy outlook unchanged

Forecast of three additional rate increases in 2018 and 2019 was unchanged

“At the moment the U.S. economy is performing well... The global economy is doing well, we’re in a synchronized expansion”

Financial Focus

The Federal Reserve raised interest rates on Wednesday [December 13, 2017] but left its rate outlook for the coming years unchanged even as policymakers projected a short-term jump in U.S. economic growth from the Trump administration’s proposed tax cuts.

In an early verdict on the tax overhaul, Fed policymakers judged it would boost the economy next year [2018] but leave no lasting impact, with the long-run potential growth rate stalled at 1.8 percent. The White House has frequently said its tax plan would produce annual GDP growth of 3 percent to 4 percent.

The expected fiscal stimulus, coming on the heels of a flurry of relatively bullish data, cleared the way for the U.S. central bank to raise rates by a quarter of a percentage point to a range of 1.25 percent to 1.50 percent. It was the third rate hike [in 2017].

But the Fed’s forecast of three additional rate increases in 2018 and 2019 was unchanged from its projections in September, a sign the tax legislation moving through Congress would have a modest, and possibly fleeting, effect.

The rate increase represented a victory for a central bank that has struggled at times to deliver on its promised pace of monetary tightening. It also allowed Fed Chair Janet Yellen, at her final press conference before her term ends in February, to signal an all-clear for the U.S. economy a decade after the onset of the 2007-2009 recession.

“At the moment the U.S. economy is performing well. The growth that we’re seeing, it’s not based on, for example, an unsustainable buildup of debt ... The global economy is doing well, we’re in a synchronized expansion,” Yellen said. “There is less to lose sleep about now than has been true for quite some time, so I



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The Fed now envisions a burst of growth, ultra-low unemployment of below 4 percent in 2018 and 2019 and continued low interest rates - yet little movement on inflation

CSXT announces policy changes starting January 1, 2018

feel good about the economic outlook.”

But the central bank’s projections also contained some potential dilemmas for incoming Fed chief Jerome Powell.

The Fed now envisions a burst of growth, ultra-low unemployment of below 4 percent in 2018 and 2019 and continued low interest rates - yet little movement on inflation.

Yellen said the persistent shortfall of inflation from the Fed’s 2 percent goal was the major piece of “undone work” she was leaving for Powell to figure out.

INFLATION CONCERNS

The Fed also said on Wednesday [December 13, 2017] it expected the nation’s unemployment rate would fall to 3.9 percent next year and remain at that level in 2019, well below what is considered to be full employment. It previously had forecast a jobless rate of 4.1 percent for those two years.

Learn more at:

<https://www.reuters.com/article/us-usa-fed/fed-raises-interest-rates-keeps-2018-policy-outlook-unchanged-idUSKBN1E70IX>

Railroad & Policy Updates

The CSXT announced changes effective January 1, 2018. The notice includes details for tariff CSXT 8100 which we have listed below. You may wish to contact your CSX representative directly for any specific information regarding these changes.

1.3.3 – Safe Loading of Railcars -Change language to read, “CSXT may apply a charge of \$1,000.00 for each unsafely loaded railcar; additional handling fees may also apply” Currently reads, “CSXT may apply a charge of \$750.00 for each unsafely loaded railcar; additional handling fees may also apply” 2.1.1 –



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CSXT may apply a \$1,000 charge for each unsafely loaded railcar; additional charges may also apply

“Debit days start at 00:01 the next day after CSXT notifies the Customer of Constructive Placement of the Private railcar and stops when the customer orders the railcar for Actual Placement.”

Calculating Demurrage -Change language to read, “Debit days start at 00:01 the next day after CSXT notifies the Customer of Constructive Placement of a railcar, or Actual Placement of a railcar.” Currently reads, “Debit days start at 00:01 the next scheduled service day after CSXT notifies the Customer of Constructive Placement of a railcar, or Actual Placement of a railcar. For Customers without scheduled service days, debit days start at 00:01 the day after CSXT notifies the Customer of Constructive Placement of a railcar or places a railcar.”

2.1.2 – Reloading and Demurrage -Change language to read, “There are times when a Customer may appropriate a railcar for reloading. When this happens, the Demurrage cycle stops on the unloading account (2 credit days) and begins on the loading account (1 credit day). This ensures that you will be credited with the proper amount of time to accomplish the task.” Currently reads, “There are times when a Customer may appropriate a railcar for reloading. When this happens, the Demurrage cycle stops on the unloading account (1 credit day) and begins on the loading account (1 credit day). This ensures that you will be credited with the proper amount of time to accomplish the task.”

2.2.1 – Private Car Storage Charges -Change language to read, “Debit days start at 00:01 the next day after CSXT notifies the Customer of Constructive Placement of the Private railcar and stops when the customer orders the railcar for Actual Placement.” Currently reads, “Debit days start at 00:01 the next scheduled service day after CSXT notifies the Customer of Constructive Placement of the Private railcar and stops when the customer orders the railcar for Actual Placement. For Customers without scheduled service days, debit days start at 00:01 the day after CSXT notifies the Customer of Constructive Placement of a railcar.”

Read all changes and clarifications effective January 1, 2018:

<https://www.csx.com/share/wwwcsx15/assets/File/Customers/CSXT%208100%20Reminder%20121217.pdf>



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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 –January 2018

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.

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Railcar & Locomotive
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