TEALINC Your Rail Partner | RAILCARS MANAGEMENT CONSULTING
Lease. Buy. Sell. Manage. Strategize.

TRAIN OF THOUGHT
Newsletter for the Rail Industry

TRAIN OF THOUGHT
Q2 April 2024

RAILCARS | **SUPPORT** | **STRATEGY**

Featured Articles

Even More…

- 2024 Scholarship – Still Time to Apply!
- Rail Fleet Operations in 2024
- Surface Transportation Board
- Rail Traffic Data
- Take a Spin Around the Ocean Shipping World
- Partnering with Tealinc

Railing On…

Darell Luther, Founder & CEO

Election year/ NTSB / Unicorns / Service.
We're in Q2 of 2024, an election year where the gloves are already starting to come off. While we don't generally write about politics, sadly, we think they'll be important this year. Notwithstanding a presidential race where there are no presidential candidates running, we see politics heating up in the rail space.

Politics / Safety
In case you haven't heard, the Norfolk Southern Railway (NS) is getting hammered by the National Transportation Safety Board (NTSB), many shipper organizations, and many private equity firms.
It is unfortunate that a derailment that NS certainly didn't want to happen has opened the door and many of these entities are actively leveraging a very regretful derailment that severely impacted a local community into some self-interests. The NS been criticized for their lack of management skills and deployment of resources. It's always tough when you're trying to run a railroad and fend off wolves at the door. I'm not saying the NS management is exemplary but I'm also not saying its necessarily bad either. Politics aside for the most part, if anyone asked the NS, they would certainly say that they are obliged to "make it right" with the community and those affected by secondary fall-out. In the meantime, they've got to run the railroad and put measures in place to negate any future impacts. Interesting is the fact that the STB has come to the aid of the NS to help fend off the Private Equity strip and go world.

Technology / Safety First!
All railroad investments into technology, infrastructure, and equipment have been huge (multi-millions of dollars) over the past decade and *(continued…)*

Continued…Railing On

amazing devices such as electronic sensors, hot box detectors, wheel KIP readers, and whole railcar scans have all implemented to take human error out of the equation. Not that I don't think a good set of eyes on a passing train isn't important because it is, but having the support of technology has the potential of even further supporting rails mission to keep safety first. Continual focus on safety and a little political relief may be beneficial to the NS. It appears that all other Class 1 railroads are reviewing their commitments to safety considering the heat NS is taking. It was a very tragic accident indeed and we want to recognize all who have endured loss and challenge. It is also important to know that rail is still the safest method of land transportation and true money continues to be invested to ensure that safety truly comes first.

Railroads have also been posed with the challenge of Reciprocal Switching to drive some competitiveness into monopolistic pricing. Frankly I can't tell where its implementation status is at. So far, the individual service parameters of Service Reliability, Service Consistency, and defining Inadequate Local Service are all the right measures but how to measure them and the low hurdle rates makes one question the intent. Is 60% of the railcars delivered in a 24-hour period good or not? Read up on the ruling and let us know what you think.

Plan, strategize, and rail-on with Darell Luther:
(406) 347-5237 | (406) 853-3332 | darell@tealinc.com

Engagement With the Rail Industry

Nate Chilton, Director: Railcar Leasing & Sales
Ryan Williams, Director: Business Development & Marketing

Navigating the circuit of rail industry conferences and trade gatherings can be daunting. The real challenge lies not in finding an event to attend, but rather in deciding which ones align best with our business objectives. As a lean team, we prioritize and evaluate each event's value proposition in terms of both cost, time investment, and ability to connect and network. In Q2 2024, our team has been actively involved in many industry events. Ryan Williams, Director: Business Development and Marketing, recently participated in the TSLRRA event held in Hurst, TX, which coincided with the Texas Rail Association meeting. This dual event facilitated extensive networking opportunities across both freight and passenger rail sectors. Additionally, Ryan assumed a new role as a member of the TSLRRA board, contributing to the events committee.

As this newsletter goes out, Nate Chilton, Director: Railcar Leasing & Sales, is attending the Northeast Association of Rail Shippers (NEARS) conference in Saratoga Springs, NY which is expecting an attendance of 175-200 industry professionals. Tealinc proudly continues its tradition of supporting the NEARS conference and is honored to be one of this year's sponsors.

NEARS NORTH EAST ASSOCIATION OF RAIL SHIPPERS | TSLRRA | HI-RAIL 'N ROUNDTABLE | DFW RAIL LUNCHEON

Continued…. Engagement With the Rail Industry

Looking ahead to May, we anticipate another month of networking and collaboration. Early in the month, Nate and Ryan will host an informal rail luncheon for colleagues in the Denver Metro area. Mid-May will see both Ryan and Nate attending the Dallas Fort Worth Rail Luncheon, a unique industry event known for its two-hour networking session, complemented by a tasteful lunch and the occasional guest speakers. This month's event features Ailsa Von Dobeneck, President of the TSLRRA and AVP Government Affairs at Watco. For those yet to experience this event, it's certainly one to consider. Feel free to contact Ryan for further details and to secure a spot on the invite.

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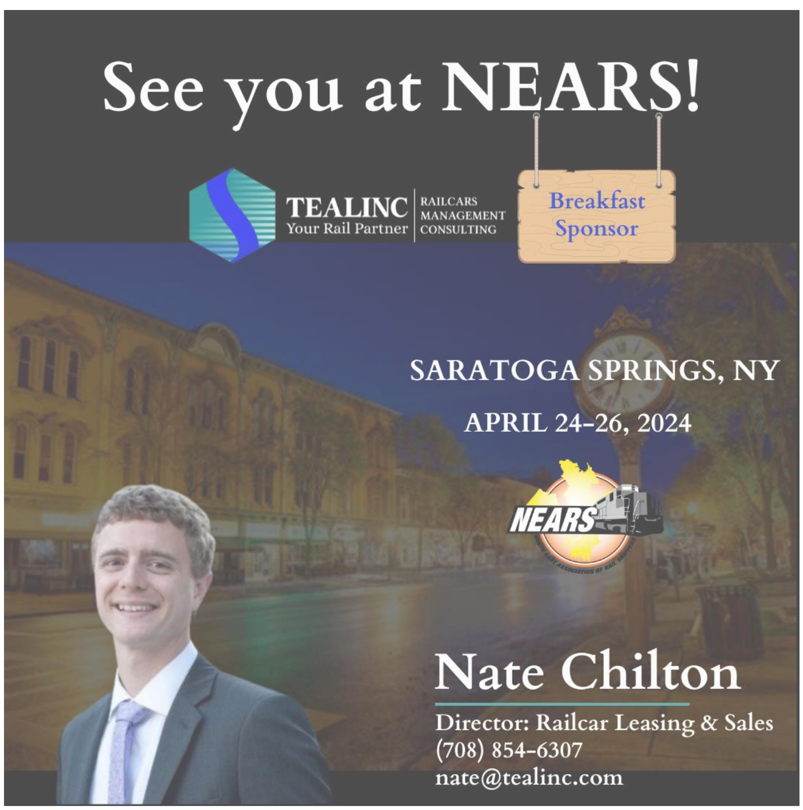
In late Q2, Ryan and Blake DeNoyer with Lockton Companies plan to resume hosting their 3rd Hi-Rail'n Roundtable virtual series. Stay tuned for updates as the topic and featured panelists will be announced in the coming weeks.

Connect with Nate Chilton and Ryan Williams on the road or in the office!
Ryan can be reached at (620) 240-3646 or via email at Ryan@tealinc.com
Nate can be reached at (708) 854-6307 or via email at Nate@tealinc.com



The Value of Knowing…Car Repair Billing

Shannon Rodgers, Director: Rail Fleet Management

Knowing (and understanding) your Car Repair Billing expenses is vital for your operations. Railroad car repair billing can be grouped into two different categories:

1. **Running Repairs:** These repairs are conducted by railroads as per the AAR Interchange Rules to ensure the safe and swift movement of freight cars to their destinations. Since Running Repairs fall under the AAR rules, the AAR Office Manual Rule 111 defines how the labor rate is determined and calculated. It accounts for many factors including, but not limited to, labor and material. As of this publication date, the current US Rate is currently $161.67 ($242.09 CAD).

2. **Contract Shop Repairs:** Maintenance and repairs carried out at repair facilities or through Mobile Repair Units (MRUs) designated by the car owner or lessee. These repairs are typically completed under a Scope of Work from the railcar owner, lessee, shipper, or consultant with a predetermined maintenance, repair, and/or modification focus and outlined pricing schedule.

Tealinc provides railcar management services to customers who lease railcars with us. One of these services includes Car Repair Billing Auditing & Reporting. Through the auditing process, we identify errors that the railroads, shops, or running repair agents' invoice for repairs. We take exception and handle the paperwork involved. Our customers find great value in our Car Repair Billing Reporting and utilize our services to improve:

- Budgeting for future expenses,
- Identifying areas that preventative measure can be applied to avoid future defects,
- Scheduling railcars needing repairs to help better control expenses & downtime,
- Identifying facilities that are causing damage to railcars through loading or unloading practices,
- Other areas of focus where they have identified opportunities or challenges and require attentive expertise.

We're here to partner with you if you want to explore our Car Repair Billing services!
You can reach out to Shannon at any time at (321) 361-9834 or email at shannon@tealinc.com.

2024 Scholarship: Still Time to Apply!

Tealinc recognizes the importance of higher education. Since 2005, Tealinc has awarded at least one scholarship to a deserving student. Again in 2024, Tealinc will be awarding up to two scholarships. To qualify, you must submit a completed application by **April 30, 2024.**

Additional details about the scholarship program along with the application can be found on our website at https://www.tealinc.com/scholarship-program/

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Railcar Accounting & Ownership

Yvonne Lufborough, Director: Accounting & Finance

Like any business operator, the uncertainty of changing interest rates and cost of investing in equipment is a daily focus for us here at Tealinc. The direction of future interest rates set by the Federal Reserve depends on numerous factors, including economic indicators, inflation rates, employment figures, and global economic conditions. While it's impossible to predict future interest rate movements with certainty, analyzing current trends and economic data can provide insights into potential scenarios. If the Federal Reserve decides to lower interest rates, it could be beneficial for borrowers as it would likely lead to cheaper borrowing costs, stimulating spending and investment. However, for savers and investors seeking higher returns on their investments, lower interest rates might not be as favorable. On the other hand, if the Federal Reserve decides to maintain or raise interest rates, it could potentially lead to higher returns on savings and investments but could also increase borrowing costs, which might deter some borrowers.

With regards to the impact on railcar equipment lease pricing, historically speaking, higher interest rates have often been associated with higher but longer-term steadier pricing. Conversely, one would think then that with lower interest rates comes lower lease pricing; however, we see that, while lower interest rates can also be associated with higher pricing because lower interest rates can stimulate demand for financing, leading to increased purchasing activity and potentially driving up prices. Taking account of current and future supply and demand as well as changes in interest rates helps provide clarity on railcar equipment pricing whether it be to buy or lease.

When you want to talk about railcar investments or have accounting and finance questions, give Yvonne Lufborough a call at (406) 234-2754 or email Yvonne at Yvonne@tealinc.com

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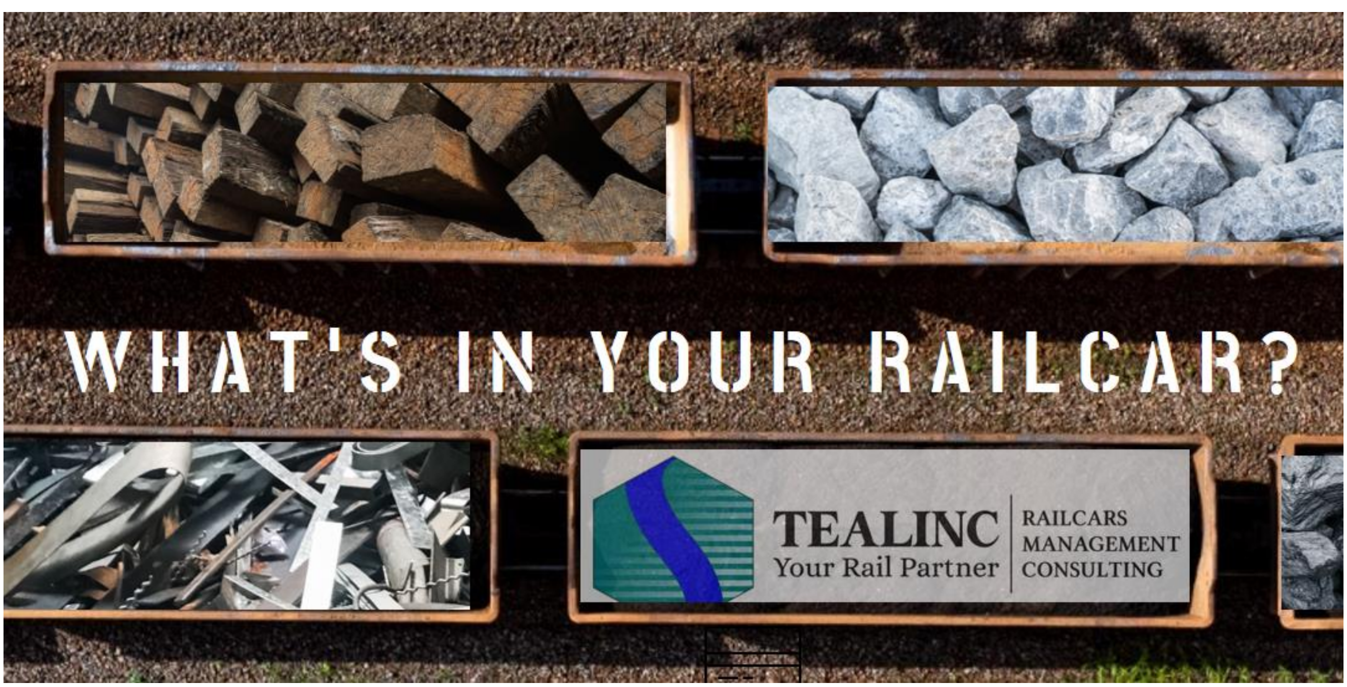

The Art of Railcar Fleet Planning

Julie Mink, President

Efficient railcar fleet planning is akin to orchestrating a symphony of moving parts. Once you've identified the volume of commodity you'll ship and origin/destination pairs, you'll need to identify the railcars needed to support your shipping requirements.
Railcar fleet planning involves meticulous consideration of various factors such as railcar. market supply and demand, short- and long-term contracts and commitments, loading and unloading needs, and the overall health of your business. Here are some key strategies to keep in mind:

1. **Know Your Needs:** Before diving into railcar fleet planning, make sure you're crystal clear on what you need from your railcar fleet. What commodities will you be transporting, where, and for how long? What are the short-term and long-term volume predictions? Knowing this will help you evaluate if your current railcar fleet is meeting your requirements or if you need to alter it.
2. **Supply & Demand Forecasting:** Stay attuned to market trends and anticipate shifts in supply and demand for your commodity and the railcars that haul your commodity. Conduct regular assessments to ensure your railcar fleet size aligns with projected needs. Identifying what your competitors are doing and ensuring you're not only aligned and ahead of them but also anticipating their next step will help you compete long-term.
3. **Asset Utilization:** Maximizing the utilization of your railcars is paramount for profitability. Analyze historical data to identify underutilized assets and explore ways to optimize their usage. Keep in mind that having idle railcars isn't always negative and typically it's a better plan to know you've got railcars available for the next growth cycle. Consider subleasing idle cars in down times with an option to pull the cars back when the market accelerates.
4. **Fleet Health & Lifecycle Management:** You wouldn't drive your personal automobile without adding gas/diesel, ensuring you have enough oil, checking the tires to ensure they have pressure, and ensuring that the vehicle is safe to operate, right? Railcar maintenance is as important. Implement a proactive approach to lifecycle management by monitoring the condition of your fleet and scheduling timely maintenance, repairs, and replacements. With a record number of railcars reaching end of their railroad interchange life, there is a real potential that replacement railcars won't be readily available. Maintain your railcars to ensure they're ready to load and move when you need them.
5. **Total Cost of Leasing or Owning Railcars:** Consider the total cost of leasing or owning railcars, including maintenance expenses, fuel efficiency, insurance, taxes, transportation, and sublease / resale value.
6. **Market Conditions:** Monitor market dynamics such as resale values and demand for specific railcar types. Timing your trades strategically can maximize returns and minimize losses.
7. **Customer Feedback:** Don't forget to listen to what your customers are saying. Are they happy with the service provided by your railcar fleet? Their feedback can be invaluable in your evaluation process.
8. **Stay Flexible:** Be open to making changes to your railcar fleet as needed. If your evaluation reveals areas for improvement, don't hesitate to take action. Flexibility is key in managing a successful railcar fleet and acquiring railcars can take 2-12 months or more depending on the market availability.

Count on Tealinc as a resource when you want some advice or are ready to make changes.
If you're planning your rail fleet or want to consider options, give Julie Mink a call at (720) 733-9922 or email Julie at Julie@tealinc.com

Rail Logistics: Operating in 2024

Operating in 2024

Consistent and reliable rail service remains challenging. Weather has had a significant impact on service in the United States. Changes in the jet stream and unlikely weather patterns reaching deep into the southern, southeastern, and northeastern US were unprecedented but seemingly over the past couple of years are beginning to represent some normalcy. The abnormal becomes normal. Canada seems to continue to remember what winter is and adjusted accordingly. Operating in 2024 may be driven by weather but other variables to consider when planning in 2024 is the election year: macro direction is muddled, and the STB continues to put pressure on railroads to perform with "good" service as well as make pointed remarks to the finance (private equity) world to stay out of the railroad operating realm. Service measures (see above) show highly variable patterns, but it seems that consistency is what shippers really prefer and rail rates that are representative of the cost of absorbing those service inconsistencies.

Surface Transportation Board

Marty Oberman addressed the attendees of the Southeast Association of Rail Shippers at the February 29, 2024, spring meeting. "Marty" has been tough on railroads. He's not scared of politics or calling a spade a spade and he's hell on poor railroad service. He is also wading in on unprecedented comments representing the STB about the proxy fight for control over the Norfolk Southern Railway. Marty's concern is service. He's been a champion of driving service to meet rail shippers' demand and is less concerned about Private Equity (PE) returns. Paraphrasing Marty, "Freight railroads are the pillars of the nation's economy, moving 1.6 billion tons of freight annually, representing 40% of all long-distance freight movement. And important to the fight against climate change, as all of you well know, rail offers a significantly more fuel-efficient and lower carbon-emitting alternative to trucking." The STB recognizes the natural monopoly enjoyed by Class 1 railroads being in many cases the only transportation mode for a high percentage of their customers. This "power" gives fortune seekers a powerful incentive to buy and strip operating entities such as Class 1 railroads. Unless the investor is a hold and grow strategist, (Warren Buffett) PE firms can significantly impact the GDP of our country. Not a place where we need a short-sighted investment. The STB is also taking other measures to ensure Class 1 Railroads meet their service obligations. With focus on earnings growth, growing the top line with reasonable cost control is what many CEO's and railroad managers are attempting to accomplish. Operating Ratio (OR) is simply too narrow of a measure to be taken with such seriousness on its own. You can read his full comments here. It's a worthwhile read.

AAR Railcar Loadings

The Association of American Railroads (AAR) recently put out its monthly Rail Time Indicators. This document covers not only rail shipments but also provides insight into economic measures that reflect our economy. You can order a subscription here. We've summarized the data below for the time frame January 1, 2024, and ending March 2, 2024 and month over month when comparing 2023 with 2024.

- Agriculture and Food Products. Grain, grain mill products and food products are up 4.7% month over month. Farm products excluding grain were down slightly over the same time period. The trend is looking up, but overall Agriculture and Food Products were down some 3.1% when compared to 2023. Blaming the lack of an export market and a strong international dollar, grain (corn, soybeans, wheat, barley, oats, etc.) isn't being exported to the level it once was. The war in the Ukraine, Gaza Strip and pirate issues in the Red Sea and Suez Canal have a lot of industry and countries rethinking their supply sources for grain and grain products.

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Continued…Operating in 2024

- Chemicals and Petroleum. Chemicals and Petroleum are a bright spot in the railcar world. Earning a 5.1% increase in railcar loadings month over month and a 4.1% increase in year-to-date comparison is certainly a win for the railroads and the shipping community. Being driven equally by chemicals and petroleum, this segment remains strong.
- Coal. Coal continues to move down as anticipated. Month over month coal was down some 11.7% with year-to-date numbers being down some 12%, levelling out the trend. The rationalization of coal railcars will continue to go on for several more years. Ironically some municipalities and utilities (probably more importantly those responsible for keeping the lights on), are pushing the reliability of coal and natural gas. I'll relate a short dissertation by a local expert here in Montana when questioned about coal being replaced by wind and solar. He says that the faceplate capacity of 1739 mw is a good story vs the 1600 mw on the coal side. What is lost in translation is the reliability and capacity factor. Wind Generator power is at 42% capacity; thus, it produces electricity 42% of the time. On the other hand, coal power produced by Colstrip units 3 and 4 are producing around 85% to 90% of the time. The other side of the story is Colstrip plants are needed to stabilize the system. Wind produces at such a variable rate that the hz varies (amplitude) that is strains the system, thus thermals and hydro (when available) are used to stabilize the system (transmission side). The coal side produces electricity at a steady rate, and we need reliability in the system. Don't get rid of all your coal railcars yet!
- Forest Products. This business line of lumber and wood products, pulp and paper products, and primary forest products (logs) is steady. Month over month gains of .9% and year over year losses of .2% leave the Forest Products rail shipments as steady as one could ask for.
- Metallic Ores & Metals. This business group consists of metallic ores, coke, primary metal products, and iron and steel scrap. It's steady month over month with 2.8% gains in carloads and .9% gains in year-over-year measures.
- Motor Vehicles and Parts. Posting gains of 12.3% month over month and 1.9% gains year over year, it appears that there's some real strength in this market.
- Nonmetallic Minerals. Consisting of crushed stone, sand and gravel, nonmetallic minerals and stone, clay, and glass products, we see downward trends of 6.4% month over month and 11.9% year over year. This phenomenon is likely affected by weather across the United States. Rain and snow make for difficult mining, sorting, and shipping. The trend certainly is getting better as we move to warmer weather.

To stay up to date with railcar loadings and commentary about market and economy indicators we encourage you subscribe to [Rail Time Indicators](). It has a bunch of great information on the current economy and rail transportation's role in it.

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Tealinc Tidbits

Take a spin around the ocean shipping world

Update on Red Sea ship pirates and diversions. Houthi pirates are back to creating havoc in the Red Sea and on March 6, 2024, killed three sailors and injured several more on with an anti-ship missile attack on the bulk carrier True Confidence while it was transiting the Gulf of Aden. The Houthi claim to be sympathetic to the Israel-Hamas war in Gaza. US Secretary of Defense Robert Gates says not to expect any near-term resolution in Red Sea disruptions. The significance of these disruptions is that they affect worldwide distribution channels, causing the shipping community to seek longer routes at higher operating costs.

Suez Canal. The Suez Canal is also affected by the pirates in the Red Sea. The Suez Canal is an artificial waterway between southern Asia and northern Africa connecting the Red Sea to the Mediterranean Sea offering a more direct route between the Indian Ocean and the North Atlantic Ocean. Ocean going vessels must go across the Red Sea to access the Suez Canal hence anything affecting the Red Sea ultimately affects the Suez Canal. This "shortcut" allows for the transportation of goods without the need for long voyages around Africa. This reduces shipping costs and increases efficiency for global trade. Anything that affects global trade affects the United States transportation systems.

Panama Canal Status. Under normal circumstances, the Panama Canal handles about 3% of the world's maritime trade volumes and 46% of containers moving from Northeast Asia to the U.S. East Coast. Bottlenecks at the canal can ripple throughout the global economy, particularly as attacks by Houthi's in the Red Sea add to shipping disruptions.   Water levels fell just over a foot for the year through March 12 compared to three feet last year. It appears that the Panama Canal will be able to accommodate a "normal" shipping pattern provided much needed rains thru the hot and dry summer months support the levels required.

Baltimore – Francis Scott Key Bridge Collapse. The most recent ship derby resulted in a collapse of an important bridge in Baltimore not only affecting the automobile traffic but also any import or export traffic using this water way to access the port of Baltimore. The fallout is just another challenge in the world of ocean vessel shipping for world trade organizations.

Baltic Dry "Freight" Index. The Baltic Dry Index (BDI) is a composite of the dry bulk time charter averages of the Capesize (40%), Panamax (30%) and Supramax (30%) indices. As vessel supply grows, the BDI adjusts downward to account for more vessels in the system. Counter to the downward pressure, the BDI adjusts up as disruptions to the vessel operating system are incurred throughout the world. The Red Sea and Suez Canal impacts along with the Panama Canal and continued war in the Ukraine impacts affect world freight. Vessels that generally use these shortcuts must go around South America (Cape Horn) and possibly southern Africa (Cape of Good Hope) to reach ports beyond. The US is not immune to these disruptions and can feel significant supply chain impacts.

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Continued…Tealinc Tidbits

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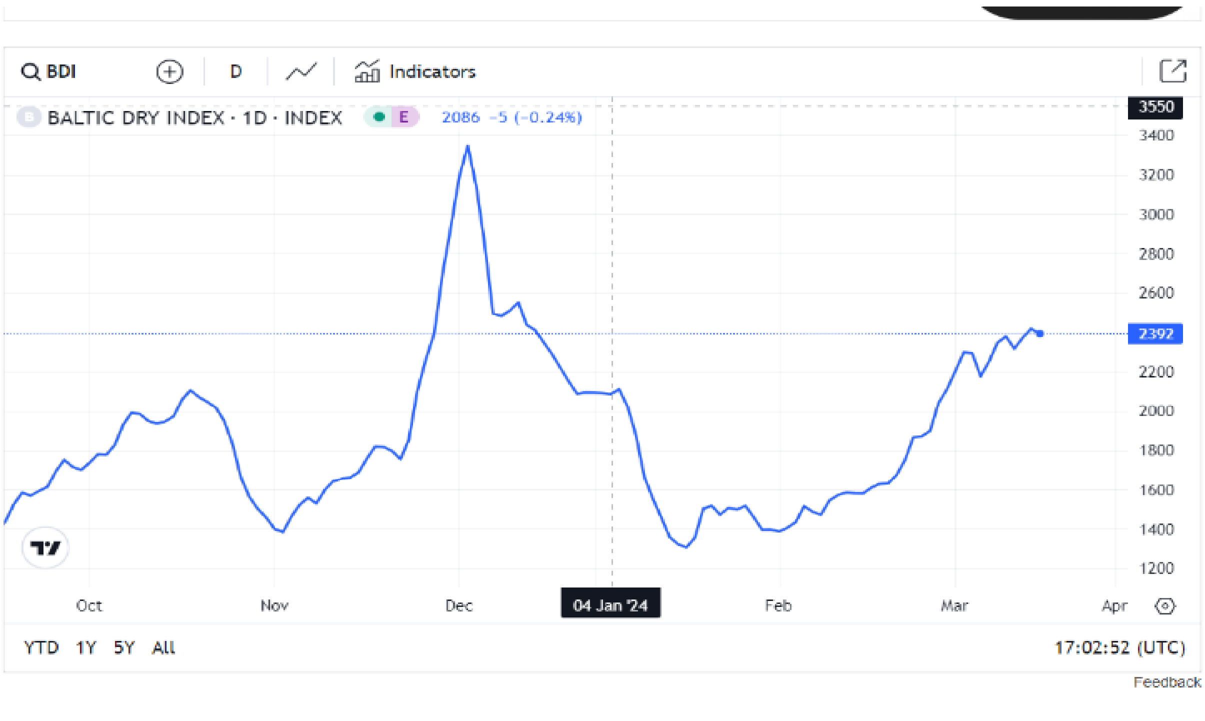

Partnering With Tealinc

How will you put Tealinc to work creating value with you?

At Tealinc, we offer a comprehensive suite of rail services catering to a variety of industries. Whether you want to lease, buy, sell, or trade railcar equipment; want support services for your railcar fleet; or want to strategize about the development, growth, or downsizing of your rail network, we'll help you find the right solutions for your business. We're dedicated to providing top-notch customer service and we are committed to ensuring that your experience with us is smooth, efficient, and hassle-free!

Buy, Sell, Lease, Trade Railcars

Rail Fleet Management Services

Rail Strategy & Business Development