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Market Reporting  
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Events

# North American rail service outlook

Midwest Association of Rail Shippers, Oak Brook, Illinois

Mark Babineck

Editor, Argus Petroleum Transportation North America

14 January 2015

# Argus Media: global, market-focused, independent

- World's largest independently held energy markets PRA - 600 staff, 23 countries
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  - DeWitt, JJ&A (Petrochemicals)
  - FMB (Fertilizers)
  - Wax Data
- Coverage expansions
  - US Natural Gas
  - Base Oils
- Services
  - Price reporting and indexation
  - Consulting
  - Conferences
- Indexation examples
  - Global crude oil and condensate
  - US refined products (incl. VGO)
  - Global base oils



# Argus transportation coverage

**THIS WEEK: EASTERN FOCUS**  
**argus Coal Transportation**  
 NORTH AMERICAN TRANSPORTATION NEWS & ANALYSIS Volume 33, 31, 5 August 2014

**argus**  
 Argus Rail Business  
 Issues: 37-38 | August 11-August 18, 2014

**argus**  
 Argus Petroleum Transportation North America  
 Issues: 1-10 | Friday 8-August 2014

**ANALYSIS**  
**Shippers eye Canada's new regulations**  
 New regulations released this month could embolden competitive switching. The rules, meant to end transportation network cartels and efficiencies, require Canadian (CN) to ship mixer subject them to more scrutiny. They also expand Canada's reach that has attracted US who want the surface similar regulations. Compete normally served by one carrier services from another. Freight competition among railroads Canadian shippers of all of Manitoba, Saskatchewan competitive switching on a mile of a working interest, the old rules' 30km (18.6 mi) Shippers eager to see Canada's new rules do not Industrial Transportation & Canadian's implementation Bruce Carlson said. HTL, a trade organized industrial shippers, is legal reciprocal switching to the traffic a proposal that no competitive railroad provide come may unaffiliated competition in the rail road. Carlson cautioned that need to differ greatly from "We would not suggest one country and apply it to The railroad engaged in HTL's proposal that switch in Canada because the C to accommodate it."

**Executive brief**  
 Service delays are mer as utilities shr ahead of demand, sought to fill a void that others industry

**NEXT WEEK: WEST**  
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**KEY MARKET INDICATORS**

**Transportation prices**

Commodity	Locality	Route	Unit	Rate	Change per week
Edison crude	Rail	Wilmington to Philadelphia	SMF	11.99	-
Edison fuel	Crude	Wilmington to Philadelphia	SMF	4.50	-
Edison fuel	Crude	Chicago to New York	SMF	4.25	-
Crude oil	Rail	Wilmington to Philadelphia	SMF	11.76	-0.16
Light products	Wilmington	Wilmington to Philadelphia	SMF	1.90	-0.12
Edison fuel	Rail	Wilmington to Philadelphia	MSD	22.37	-
Edison fuel	Rail	Wilmington to Philadelphia	MSD	2.25	-

**Commodity prices**

Commodity	Locality	Unit	Price	Change per week
Edison crude	Wilmington, PA	SMF	18.97	-0.26
Edison fuel	Wilmington, PA	SMF	18.13	-0.26
Edison fuel	Wilmington, PA	SMF	18.88	-0.26
Edison fuel	Wilmington, PA	MSD	28.00	-0.26
Edison fuel	Wilmington, PA	MSD	27.75	-0.26
Edison fuel	Wilmington, PA	MSD	28.57	-0.26

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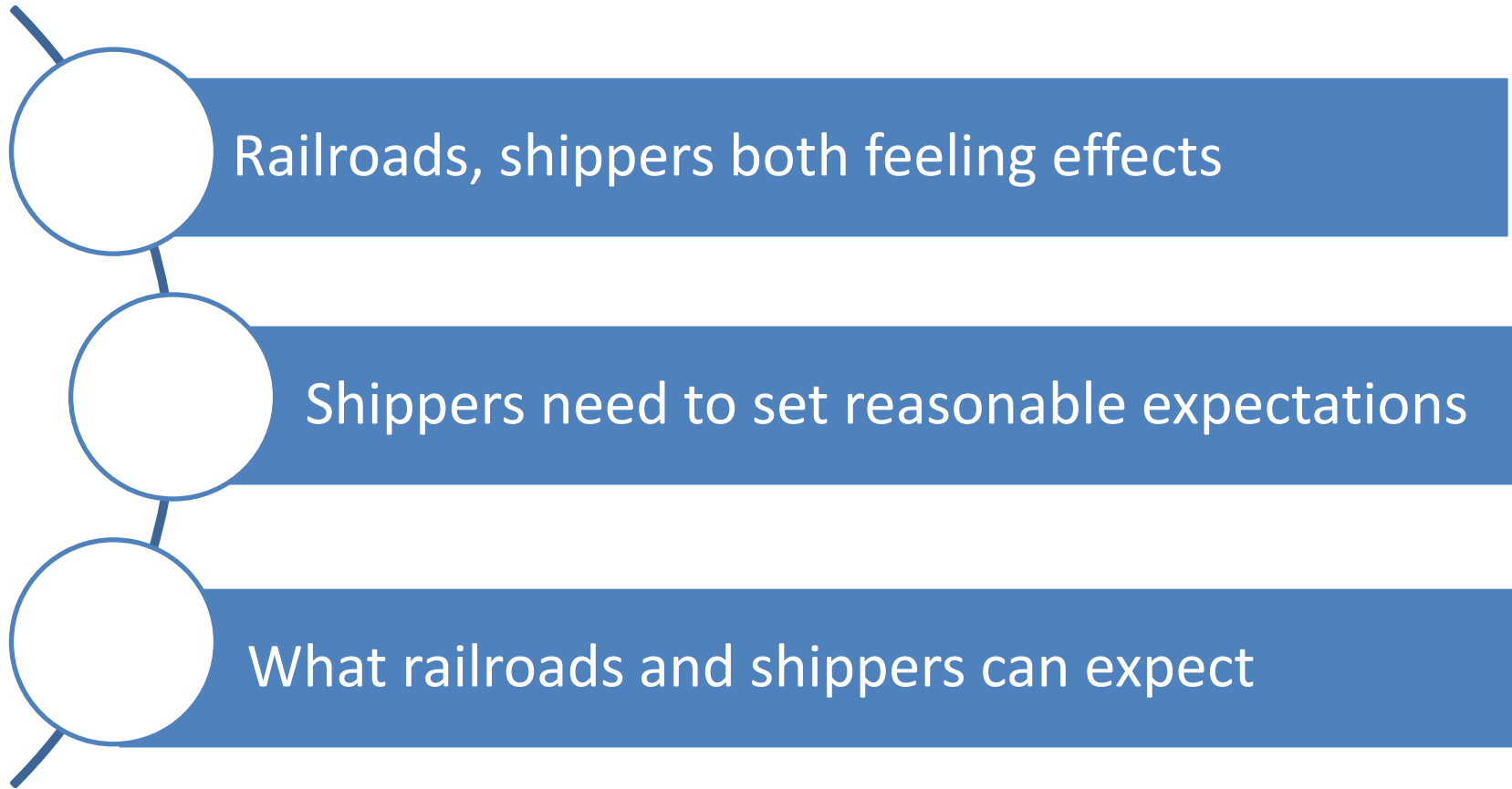
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- *Argus Rail Business* focuses on policy and regulation
- Publications *Argus Coal Transportation* & *Argus Petroleum Transportation North America* are commodity-focused, including shipping rates for energy products



Rail service declines hit bulk, petroleum shippers

## Service overview



## Rails never fully recover

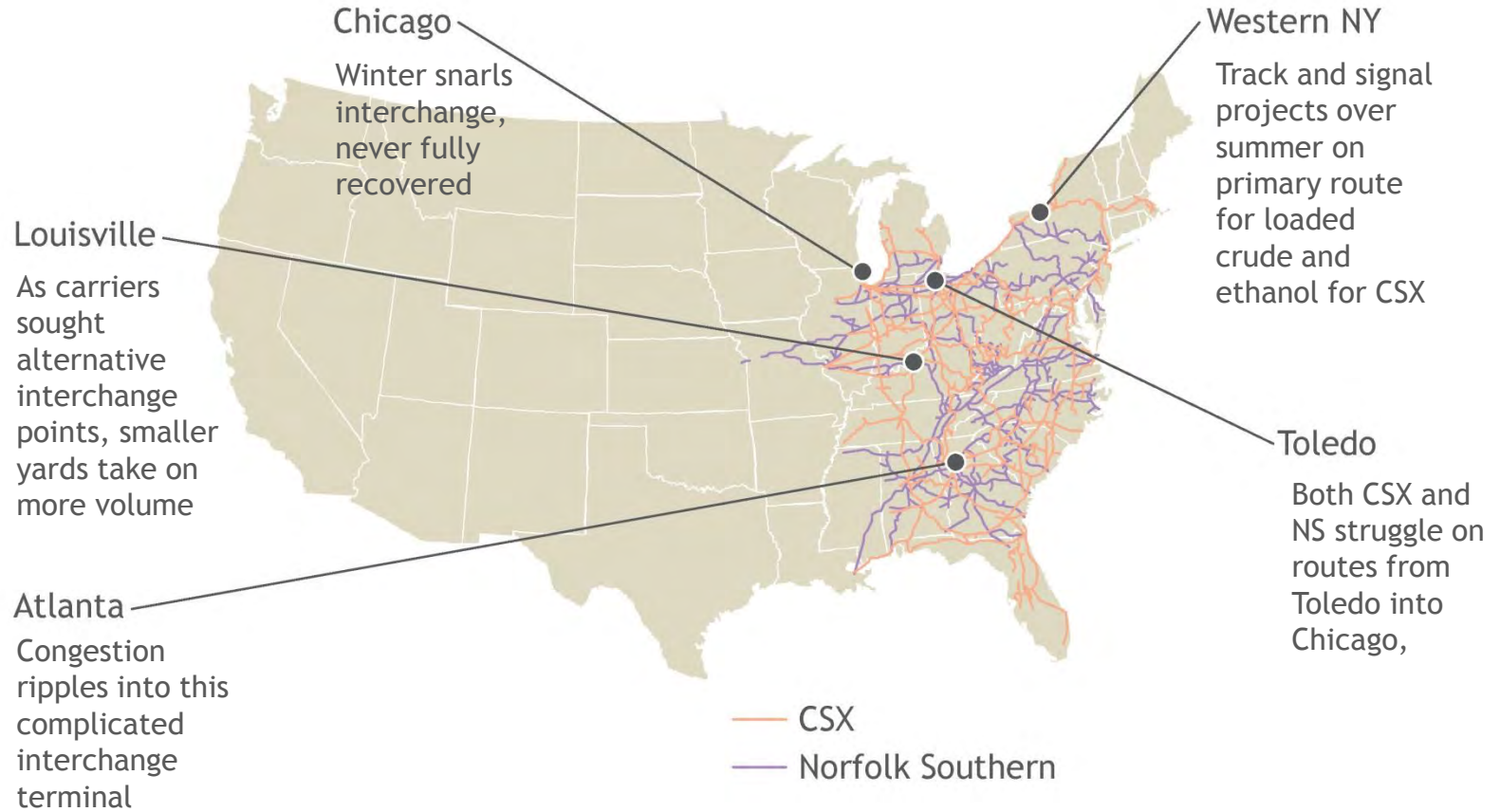
- Railroads never regained form from last winter
- Shippers from many sectors are frustrated
- Railroads trying hard to avoid regulatory, legislative involvement (less likely as reporting ramps up)

## Why have the railroads not recovered

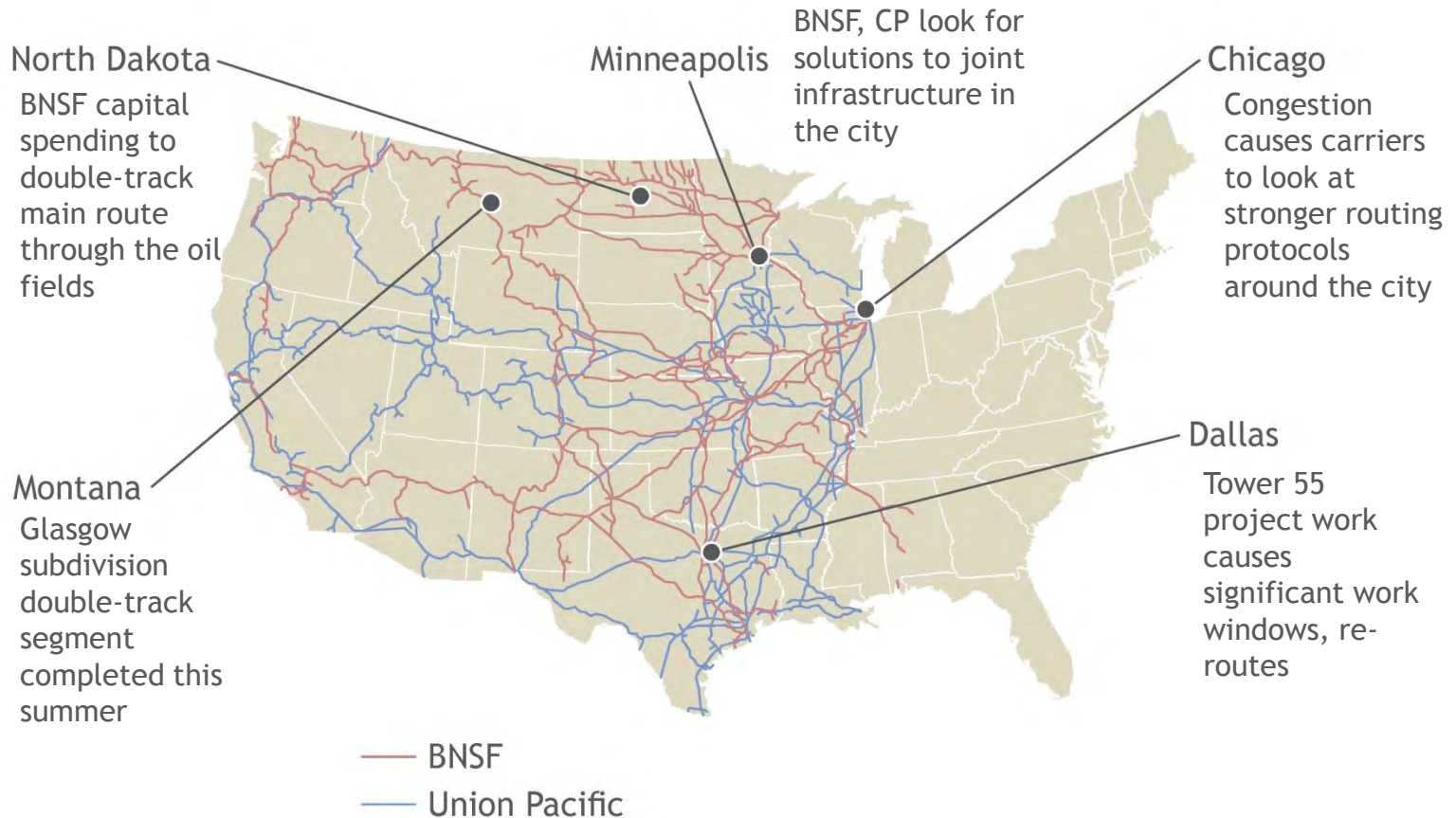
- Volumes gained in every sector in 2014
- Railroads caught off-guard by sustained strong volumes
- A lack of crews and locomotives made it difficult
- Both are long lead-time items, especially with new EPA restrictions taking effect on 1 January



# East rails

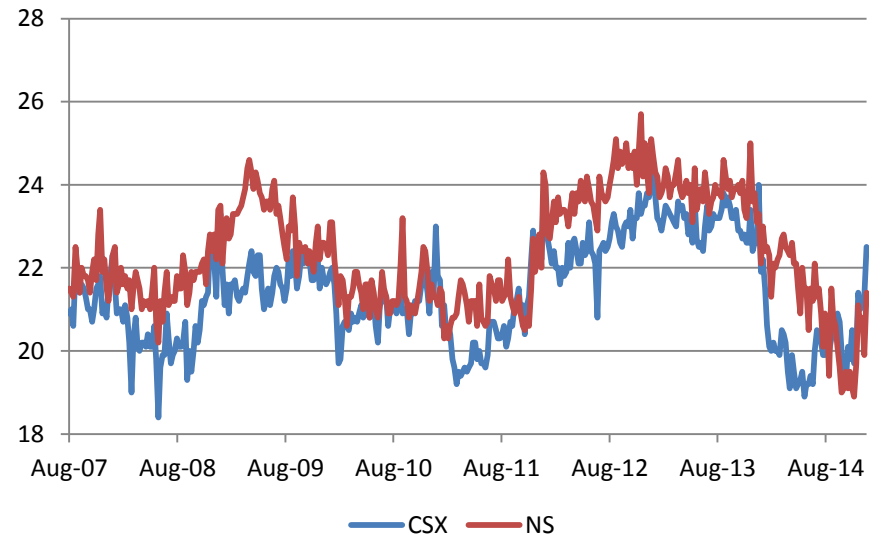
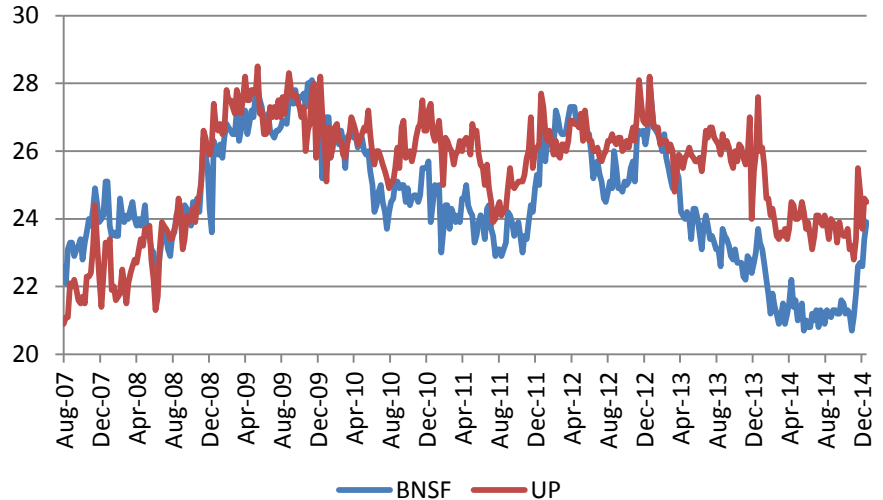


# West rails



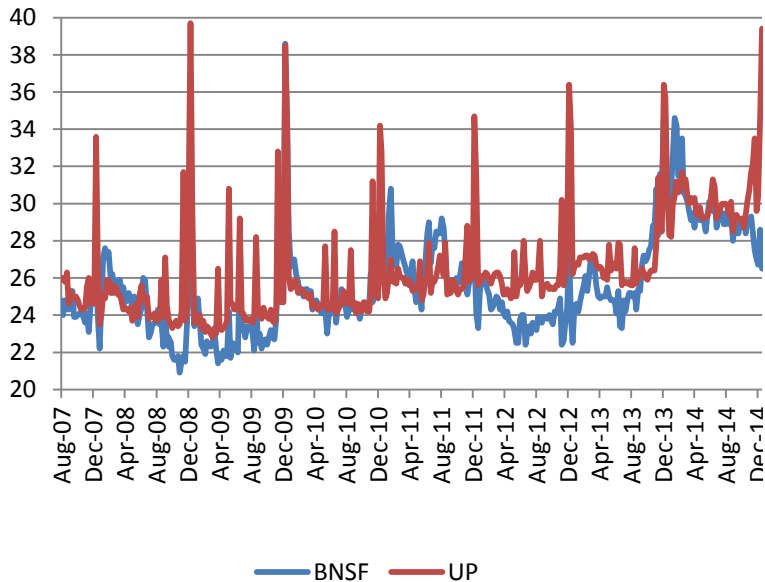
# Train speeds decline

- Slower trains lead to congestion, stressing crew and locomotive resources
- Asset shortfalls and congestion create longer turn times for shippers
- Some railroads taking as long as 50 days to turn a tank car for customers

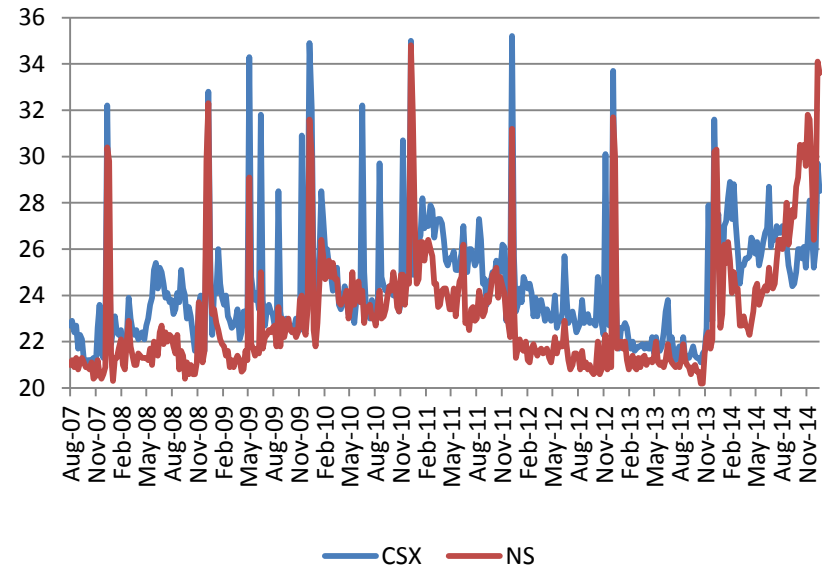


# Overall dwell times creep higher

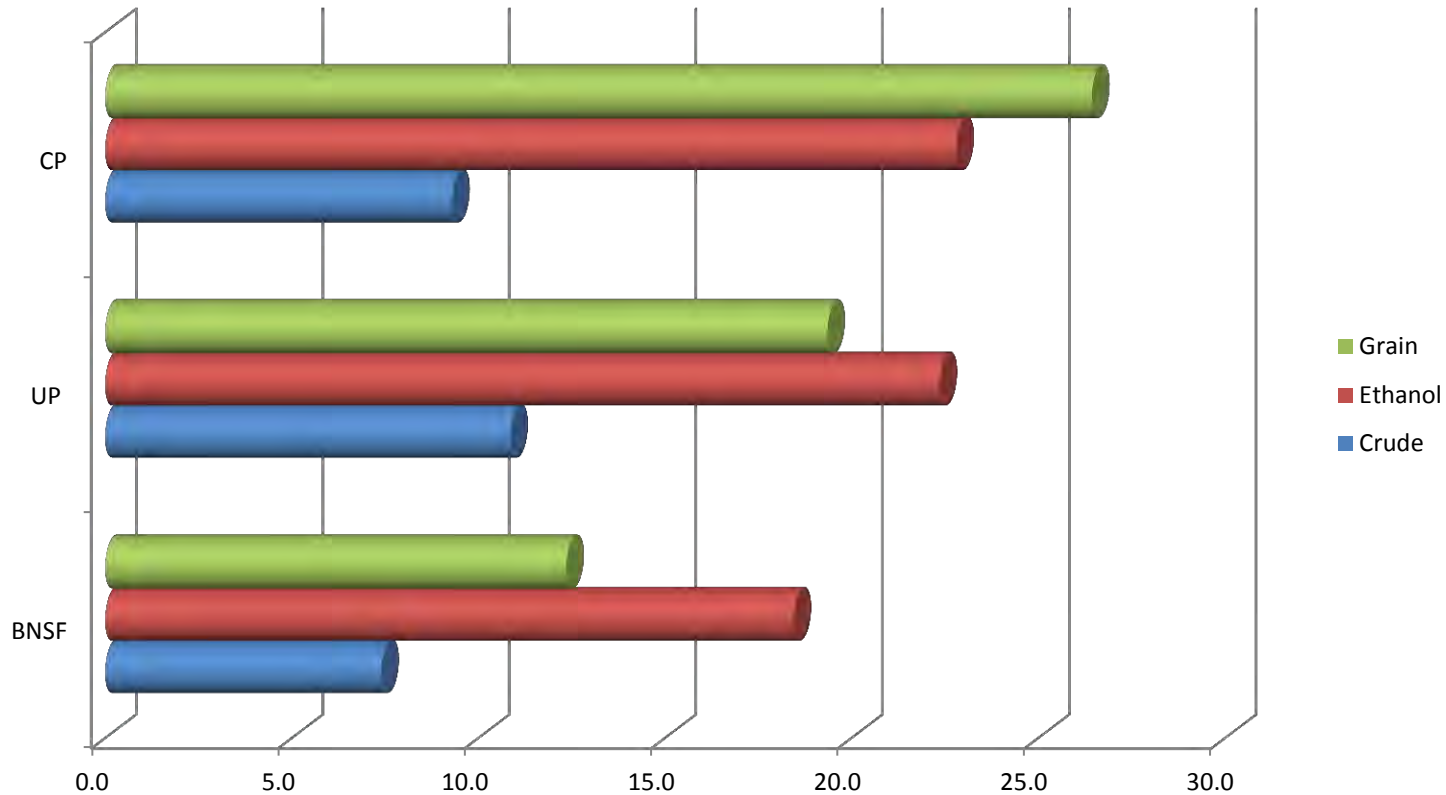
## Western railroads



## Eastern railroads

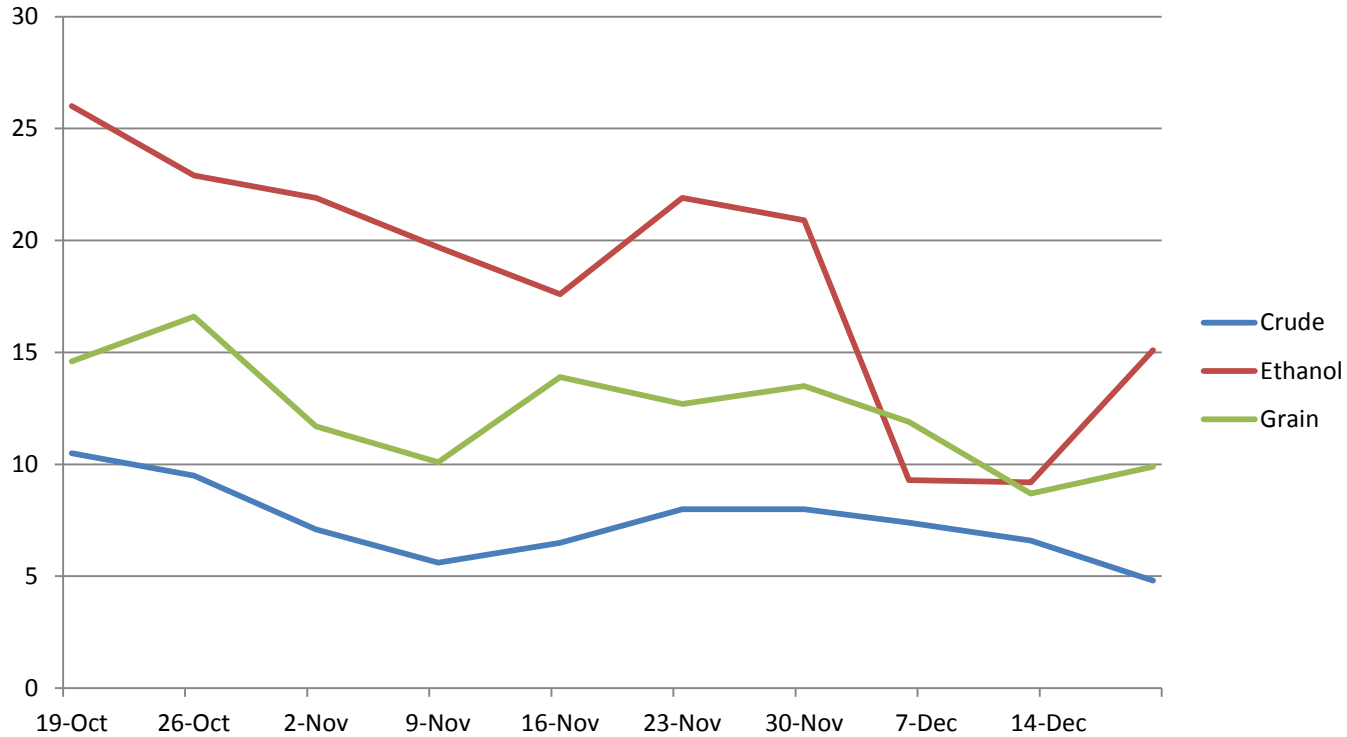


## Avg. origin dwell times by commodity since October



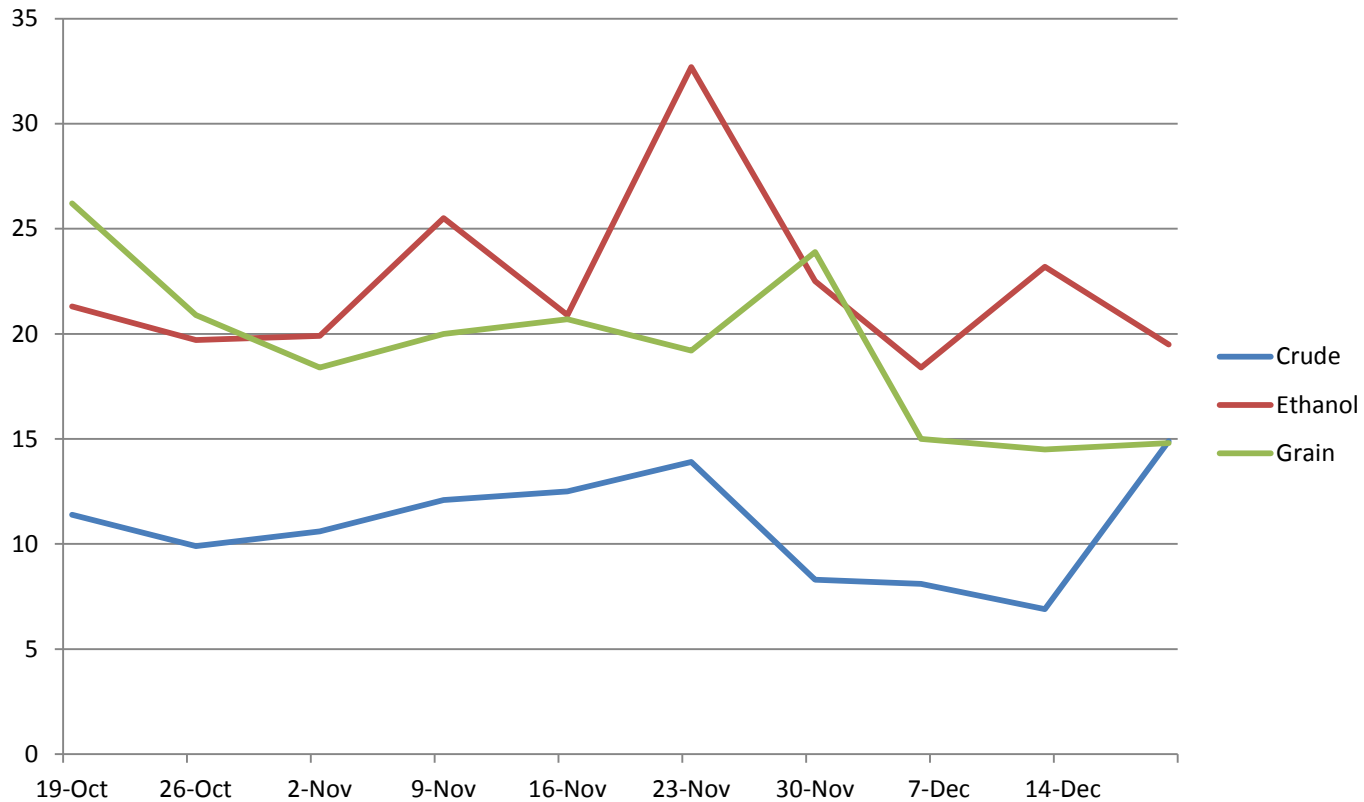
Source: Surface Transportation Board

# BNSF avg. origin dwell times (in hours)



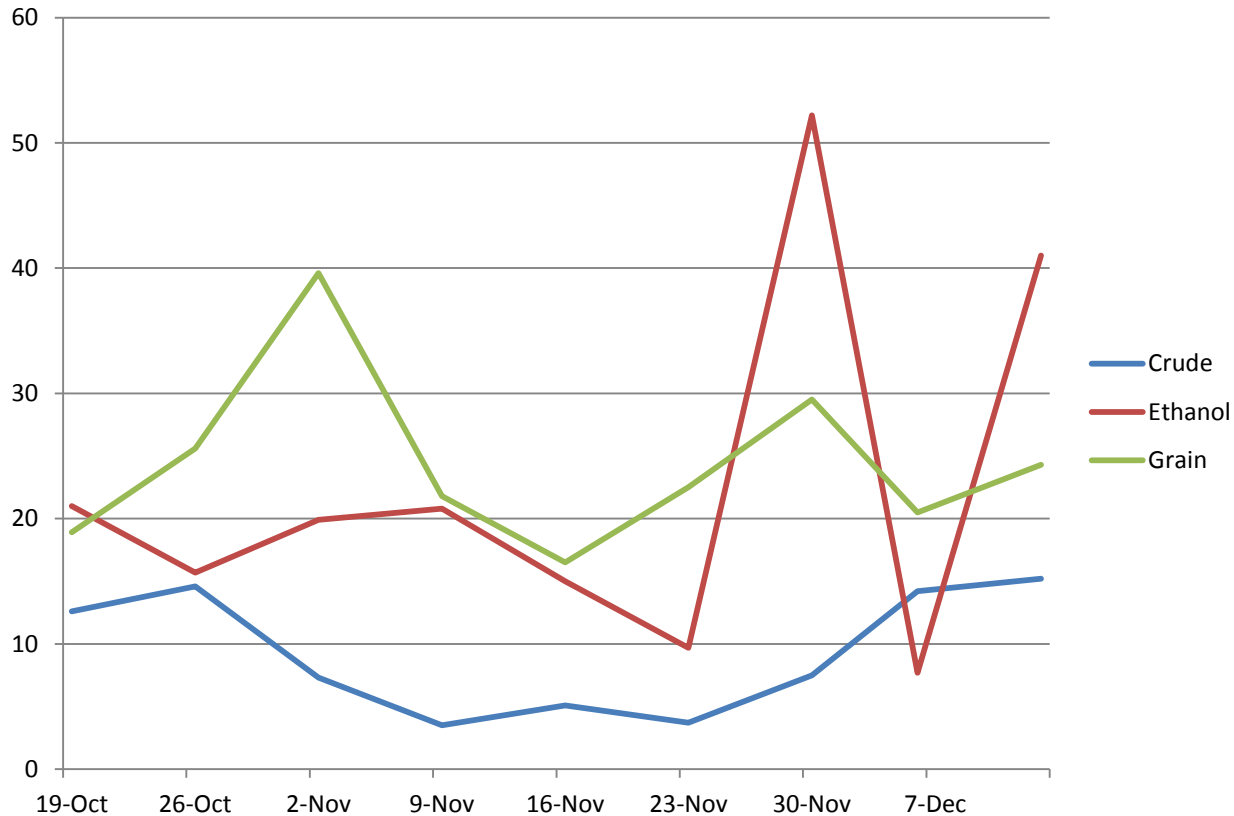
Source: Surface Transportation Board

# Union Pacific avg. origin dwell times (hours)



Source: Surface Transportation Board

# Canadian Pacific avg. origin dwell times (hours)

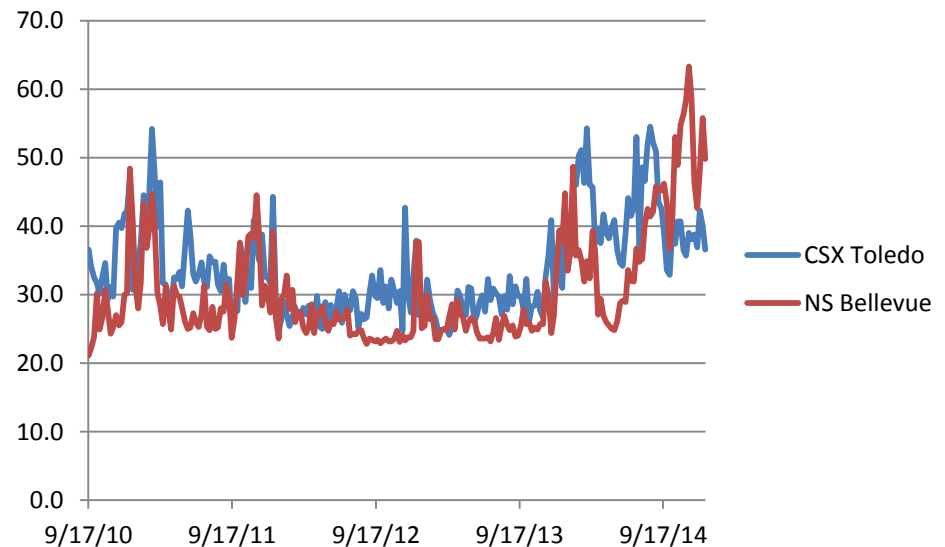
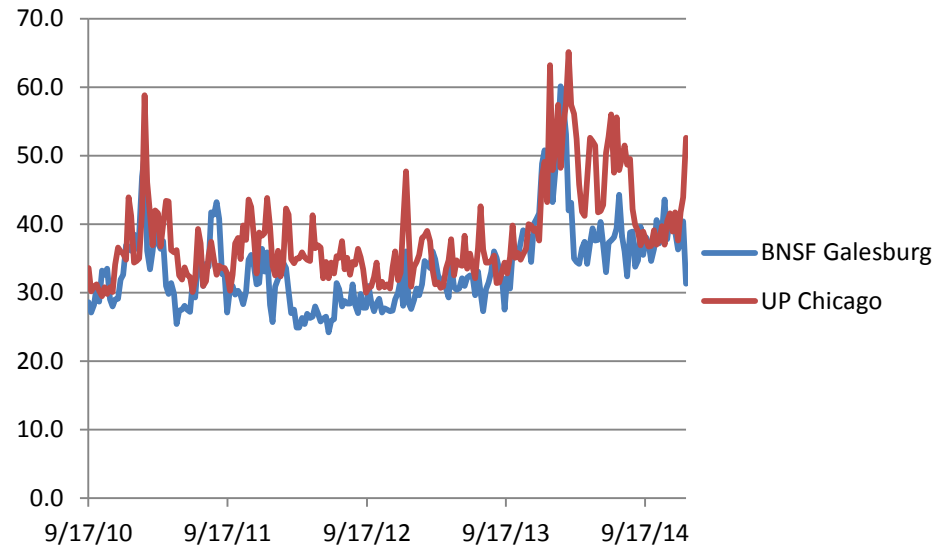


Source: Surface Transportation Board



## Terminal dwell

- Trains are not able to get through yards efficiently in the northern tier
- Weather deepens these issues; cold weather slowed Chicago last week
- Utilities vocal about needs for coal



## Different views on service

- “The inability to reliably receive or rely on railroad service puts the future of [east coast] refineries in jeopardy.” - Monroe Energy chief executive Jeff Warmann
- “Some of the disruption that you are seeing involves redoing infrastructure, particularly in the Chicago area, which is slowing things down on a temporary basis. I think, longer term, frankly, it is going to result in a little better operation.” - PBF Energy chief executive Tom O’Malley
- Ethanol producer Green Plains saw a “significant reduction of service” in the latter half of October. - chief executive Todd Becker

# Managing expectations and results

## Spotlight on service

- September hearing put focus on the issues
- Board examines potential remedies
- Congressional interest expands
- Ethanol, crude shippers could be harmed by outcome
- Winter is in full swing
- Chicago remains unfixed
- Another round of service issues is likely
- How will DC respond?

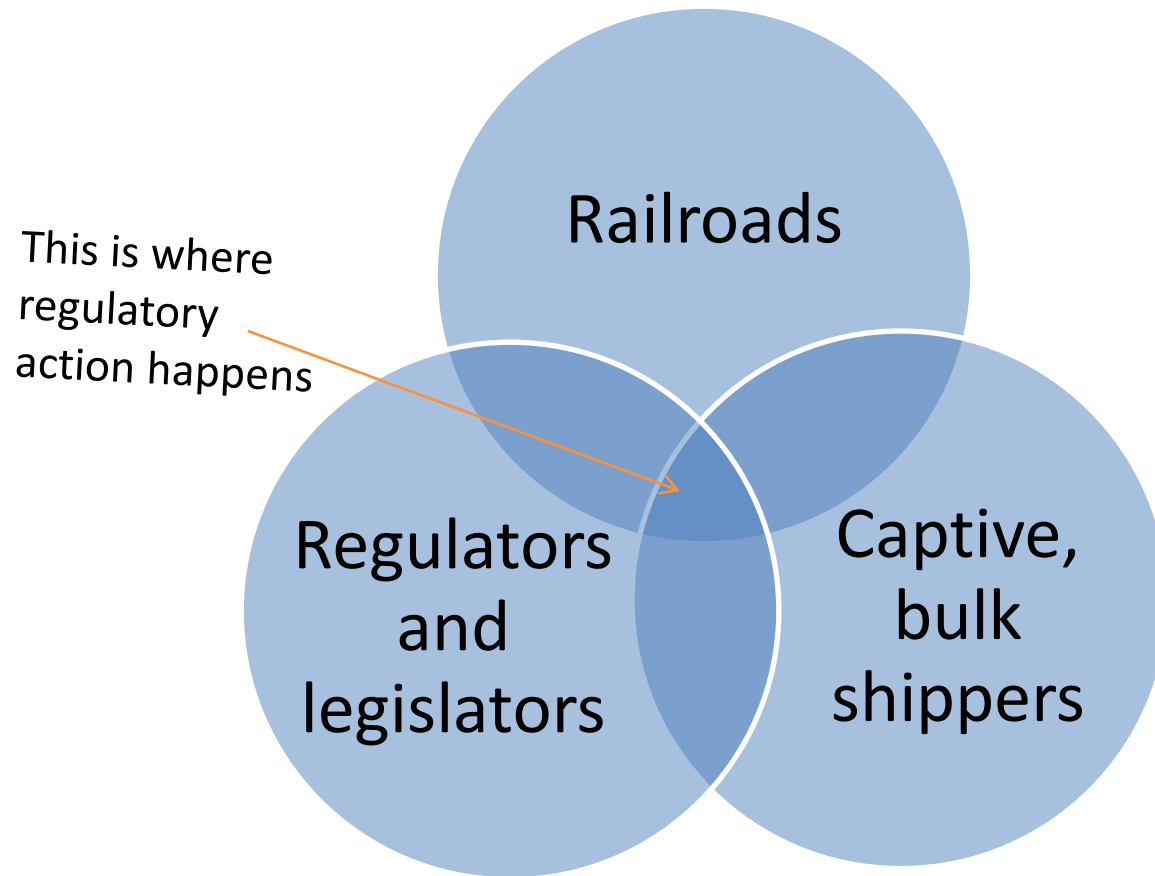
# Freight and passenger problems

- Board focused not just on freight, but on passenger service as well
- STB unlikely to use emergency service order powers; focused on transparency and data reporting
- Disproportionate commodity or Amtrak focus could degrade the entire system

## Regulatory solution could complicate issue

- Would pit shippers against each other
- Create advantaged shippers, commodities, regions
- Manifest shippers left out in cold
- STB would be in position of picking winners, losers
- Ethanol shippers left without alternatives
- Would push volume to trucks

# Service issues cloud regulatory picture



## Service woes could strengthen congressional resolve

- This year, Congress will act on at least one, possibly two pieces of legislation affecting railroads and shippers
- Ag interests can wield power with Republicans in control of the Senate
- Could bring change to the STB using service as a rationale



## Board changes lead to potential action

- Two STB board members are relatively new, bringing new experience and ideas
- Could lead to more willingness to examine or try new alternatives to disputes, service woes
- Agency in limbo on major proceedings, including service, until former chairman Dan Elliott is re-nominated by President Obama and confirmed

## Setting reasonable shipper expectations

- Longer cycle times, especially for manifest shipments
- Discussions with railroads about routing around Chicago
- Long delays if locomotives are removed from a train set or when cars have to be worked in a yard

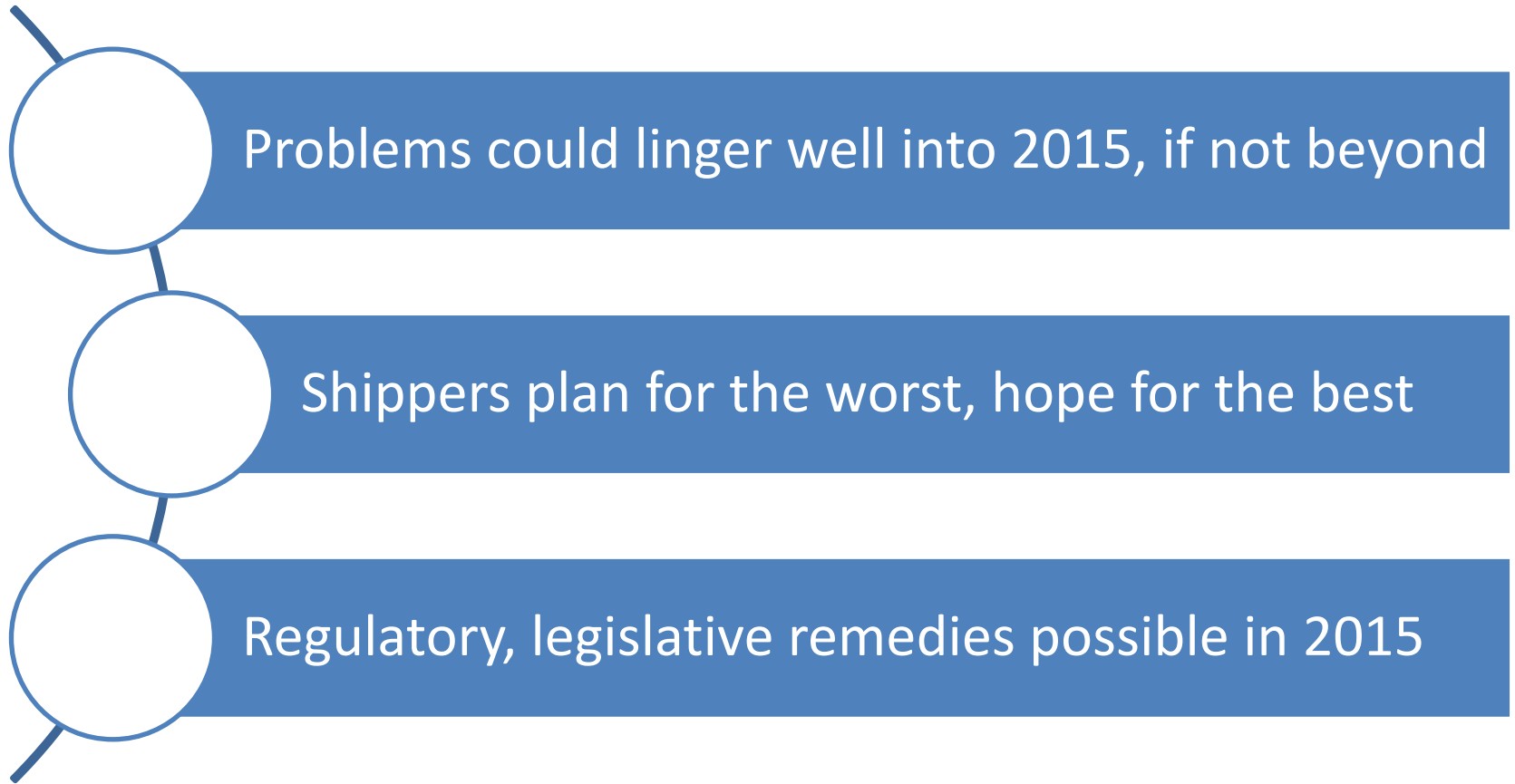
## Another winter like 2013-14 would be a disaster

- Additional traffic volumes complicate service recovery
- Railroads aggressively staffed ahead of winter, but are facing locomotive shortages
- There is only one locomotive builder for at least 2015 and several railroads are heard to be significantly short of power

## Looking ahead

- Improvements made in 2014 are unlikely to have impact this winter
- How railroads react if Chicago bogs down again
- Shippers need to prepare for “new normal” in cycle times
- Slower cycle times mean higher unit costs for producers and higher prices for buyers
- Work on routing protocols with carriers to quickly move around congestion

# Conclusions



| Any questions?

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