

Crude Shipments and Rail Prioritization: A Shipper Perspective

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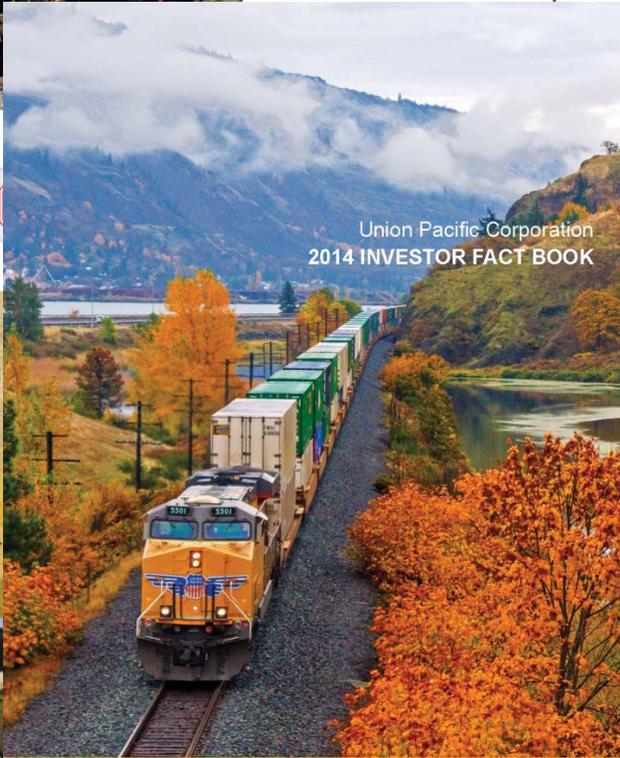


2014
ANNUAL
REPORT

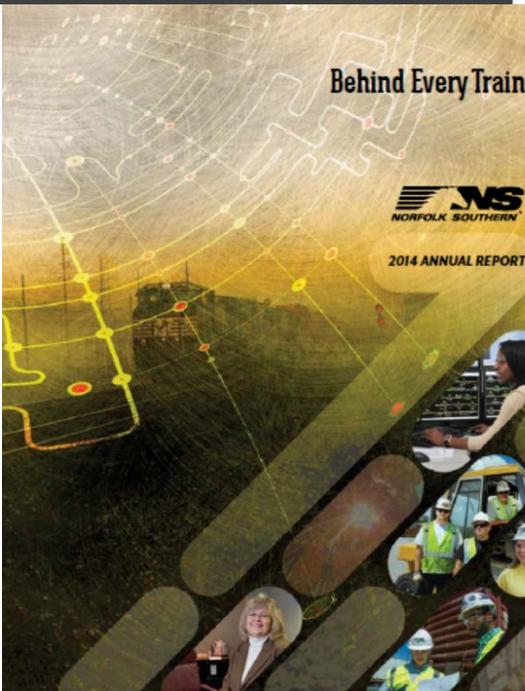


Kansas City Southern
First Quarter 2015 Earnings Presentation

April 21, 2015



Union Pacific Corporation
2014 INVESTOR FACT BOOK



Behind Every Train



2014 ANNUAL REPORT



Burlington Northern Santa Fe, LLC
2014 Fixed-Income Investor Call

May 22, 2014

This presentation is intended to provide information to certain investors in Burlington Northern Santa Fe, LLC and BNSF Railway Company debt securities. The information presented should not be distributed to third parties or quoted in analyses prepared based on this presentation.



Everyone Wants Flexibility!

- Pipeline cheaper than rail, but ...
- Shippers follow favorable basis differentials
- Railroads redeploy assets as traffic shifts
- Excess capacity costs money – no one wants to pay
- Planning helps, but this is oil trading

Barge Movements of Crude



Source : Kirby Corp.

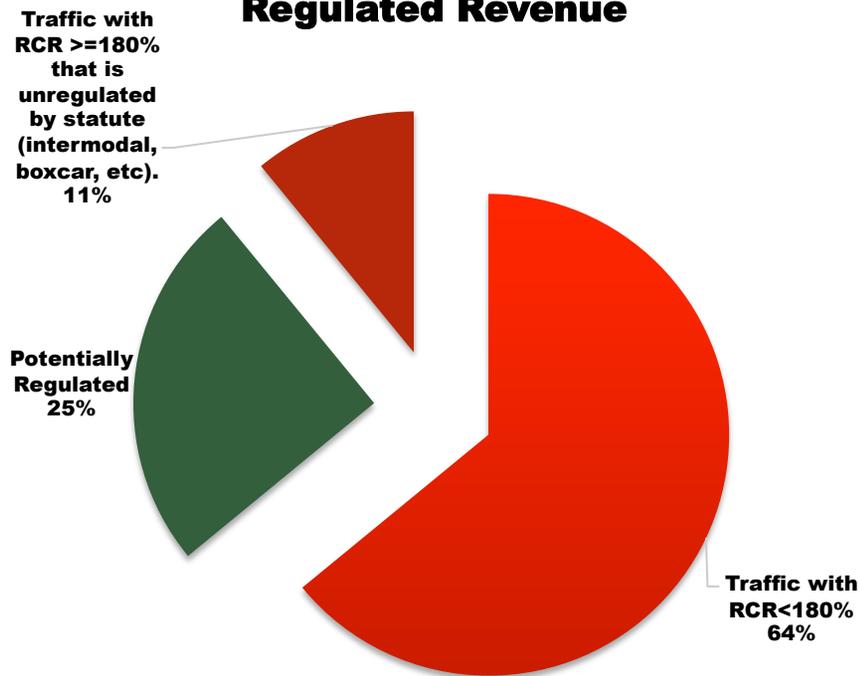
Investments to Haul Crude by Rail

- Loading and unloading terminals (2 @ \$100/M each Shipper cost)
- 100 cars - DOT 117 (\$160,000/car) or \$16M/train
- 3 locomotives (\$3M/loco) or \$9M/train
- So assuming 12 day cycle time and 1 unit train/day to a terminal requires 12 trainsets:
 - Equipment Investment: Railroad= \$108M Shipper= \$392M
- Why railroads don't invest for long term flexibility
 - ROI impact
 - Congestion pricing opportunity



Rail Regulation Largely Ineffective

Percent of Class I Railroad Regulated Revenue



Average crude oil RCR 169% - most Crude oil movements are not regulated



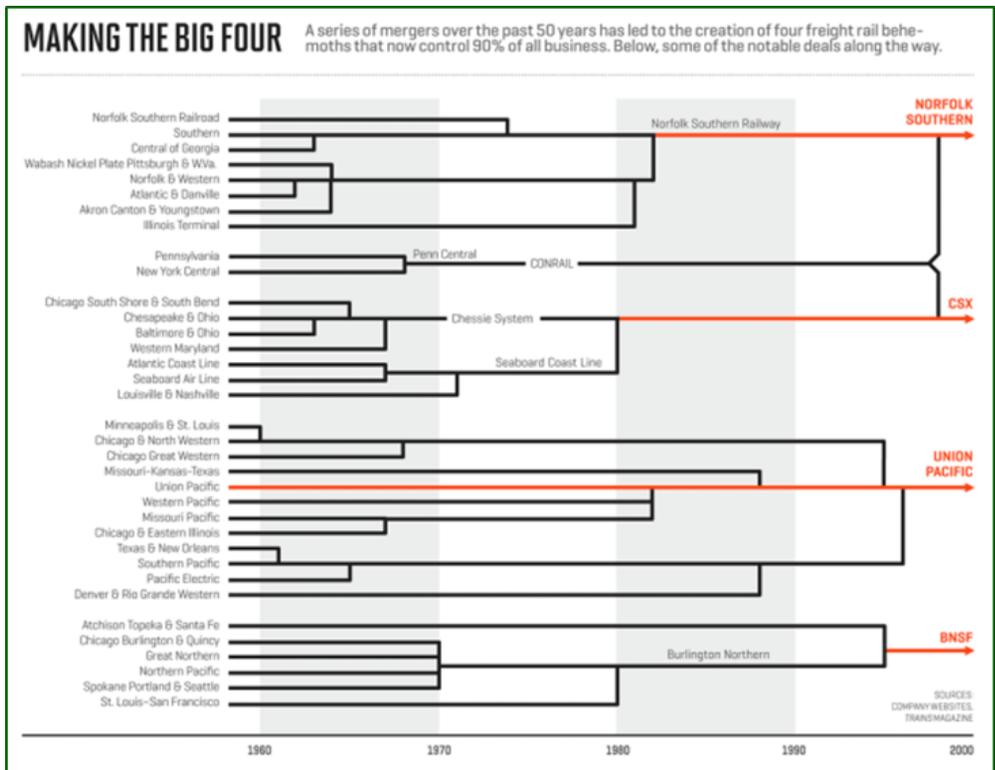
- Balance healthy railroad and captive shipper needs
- Limits on captive rates is SAC and variants
- Ineffective rate capping mechanism for CBR
- “Modernizing Freight Rail Regulation” TRB 2015

Railroads Shun Risk

- **Fuel Surcharges**
- **TIH (toxic-by-inhalant commodities)**
- **Surcharge on older tank cars**
- **No service commitments**



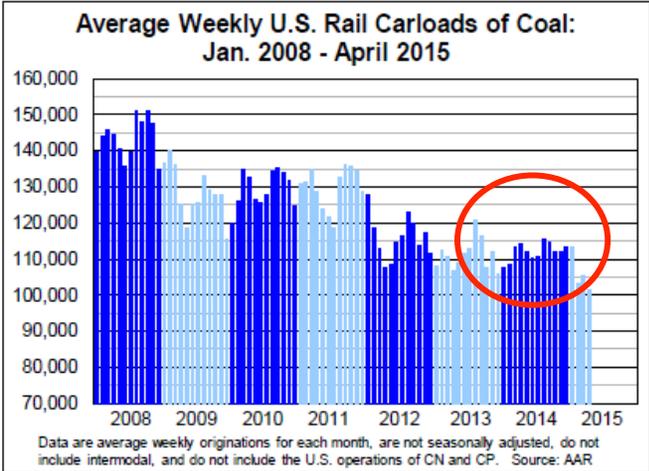
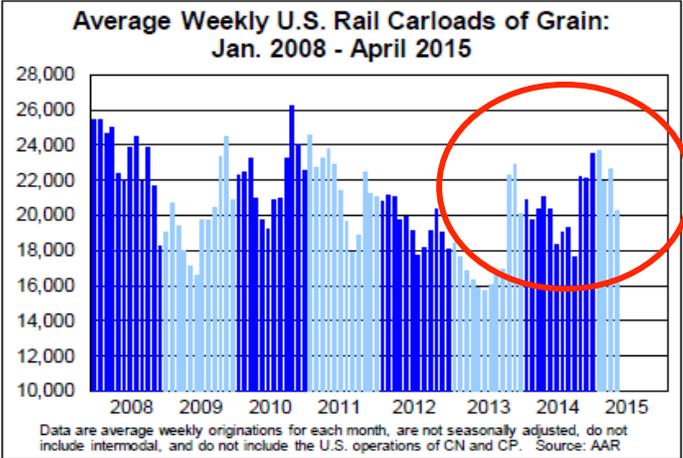
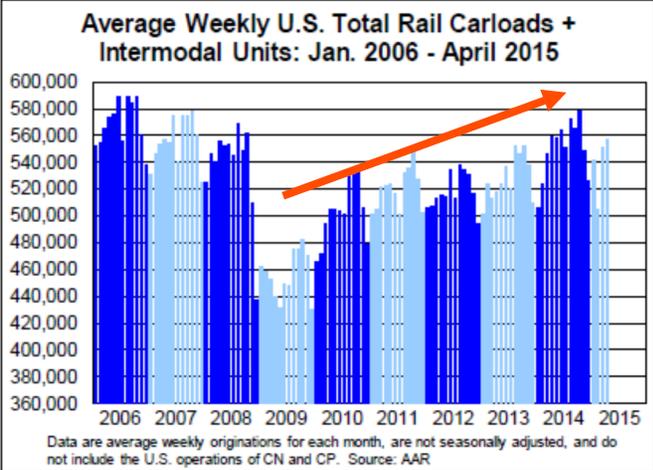
Market Power



- Railroads inherently have market power
- Competition reduced due to mergers
- Differential pricing is an accepted principle
- Wall Street expects rails to use market power
- Technology is going to benefit rail profitability



The Capacity Conundrum and Service Guarantees



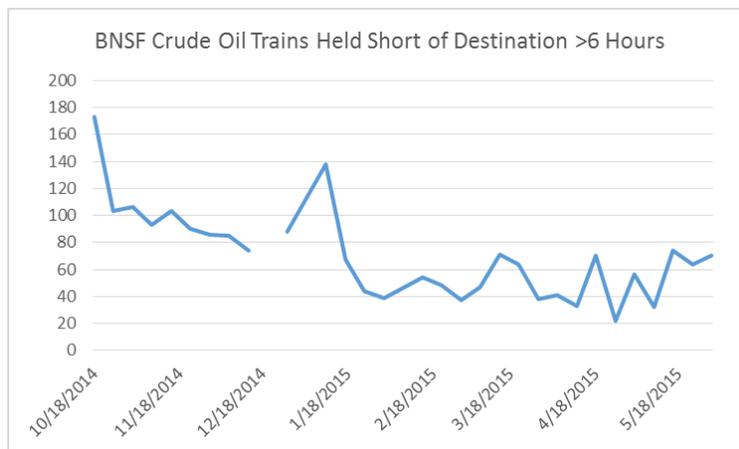
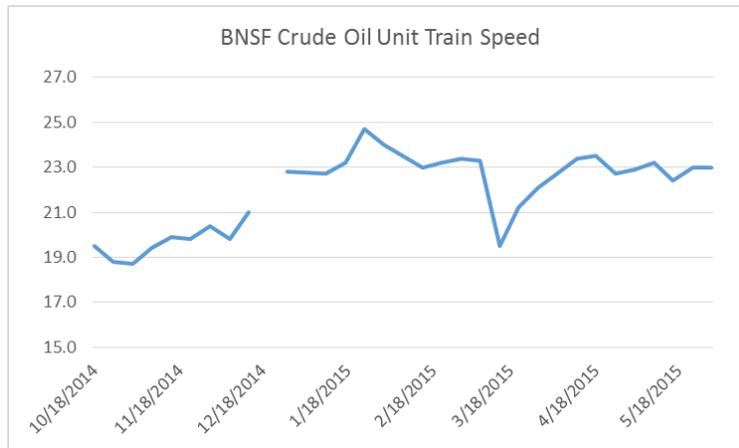
- Continued growth of crude oil, intermodal and other commodities
- Unexpected increase in coal shipments
- Record grain harvest



Capacity shortages in 2013/2014



Rail Capacity Opaque



- **Capacity difficult to measure**
- **STB data has just scratched the surface in service reporting**
- **But reported service performance data is still too general to be useful**



Conclusion

Capacity and service issues related to CBR will be ongoing and need to be managed