



PRESENTED TO:
2015 EIA ENERGY CONFERENCE
WASHINGTON, DC

RAIL CAPACITY FOR TRANSPORTATIO N OF CRUDE OIL

JUNE 16, 2015

KEP LLC
ECONOMIC AND MANAGEMENT CONSULTING

JOHN SCHMITTER
PRESIDENT

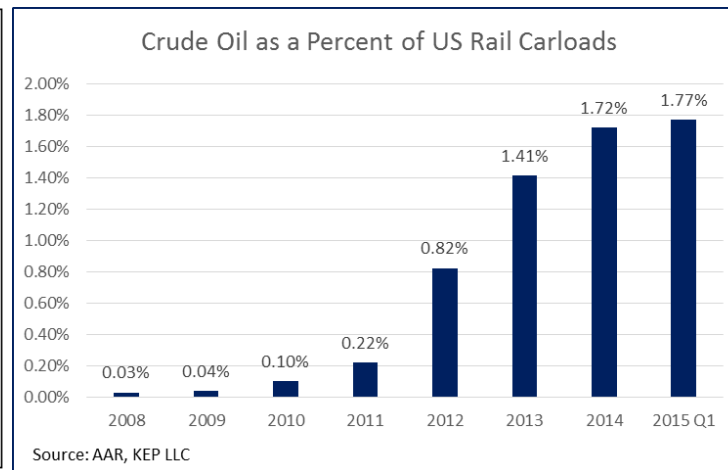
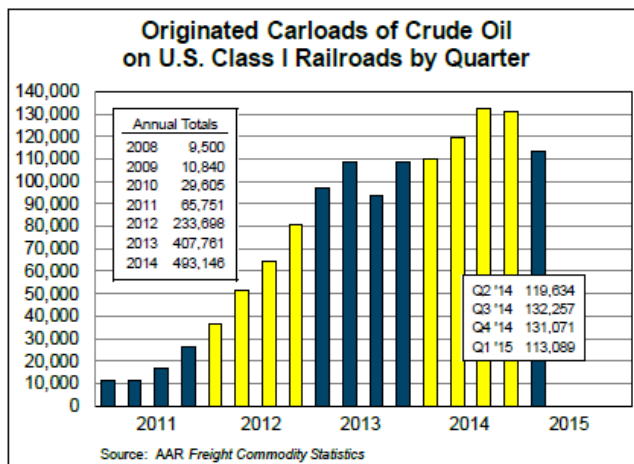




WILL THERE BE RAIL CAPACITY TO ACCOMMODATE CRUDE OIL GROWTH?

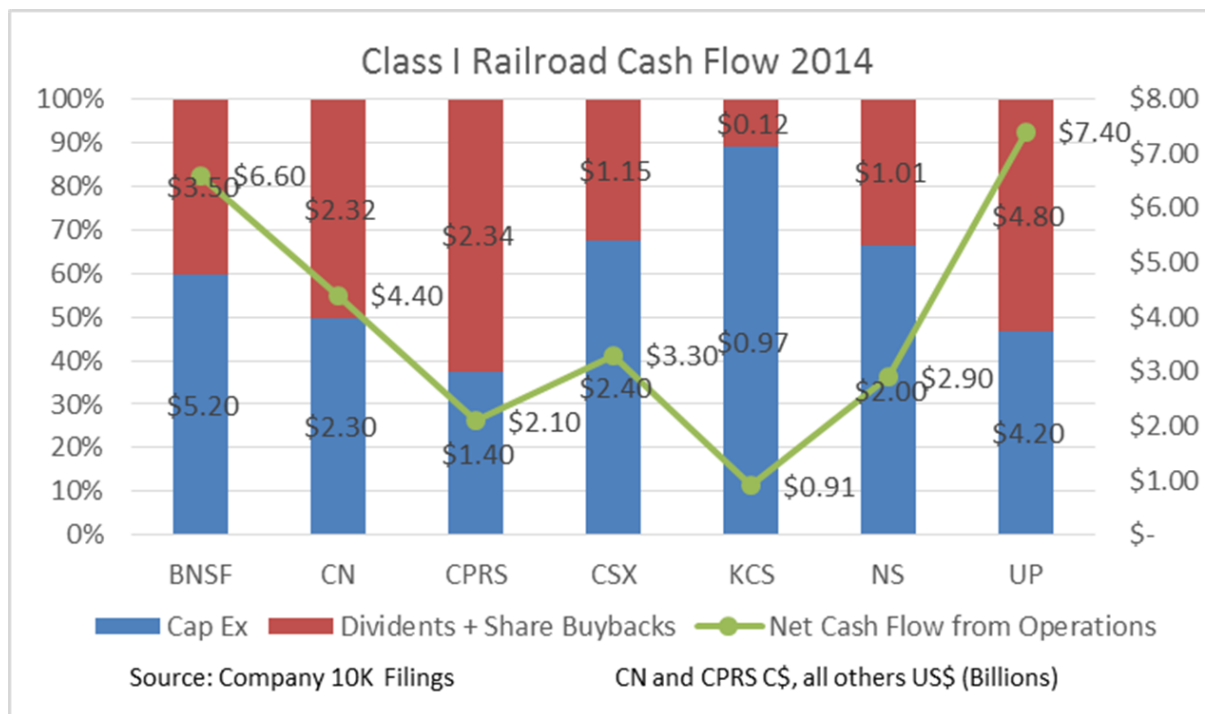
- Crude by rail movements in context of overall rail traffic
- Competition for capex funds and rail capacity - can you afford it
- Vulnerability to short term disruptions
- Importance of managing rail transportation effectively

RAIL SHIPMENTS OF CRUDE OIL GREW RAPIDLY UNTIL MID 2014



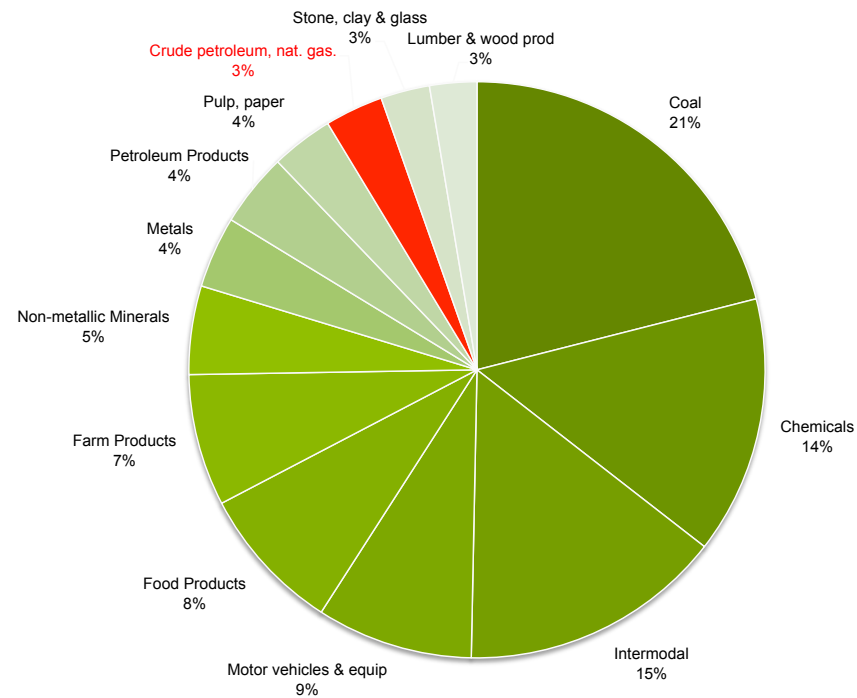
But crude oil is a small part of overall rail traffic

CAN YOU AFFORD THE CAPACITY? THERE IS COMPETITION FOR RAILROAD CASH FLOW FROM INVESTORS



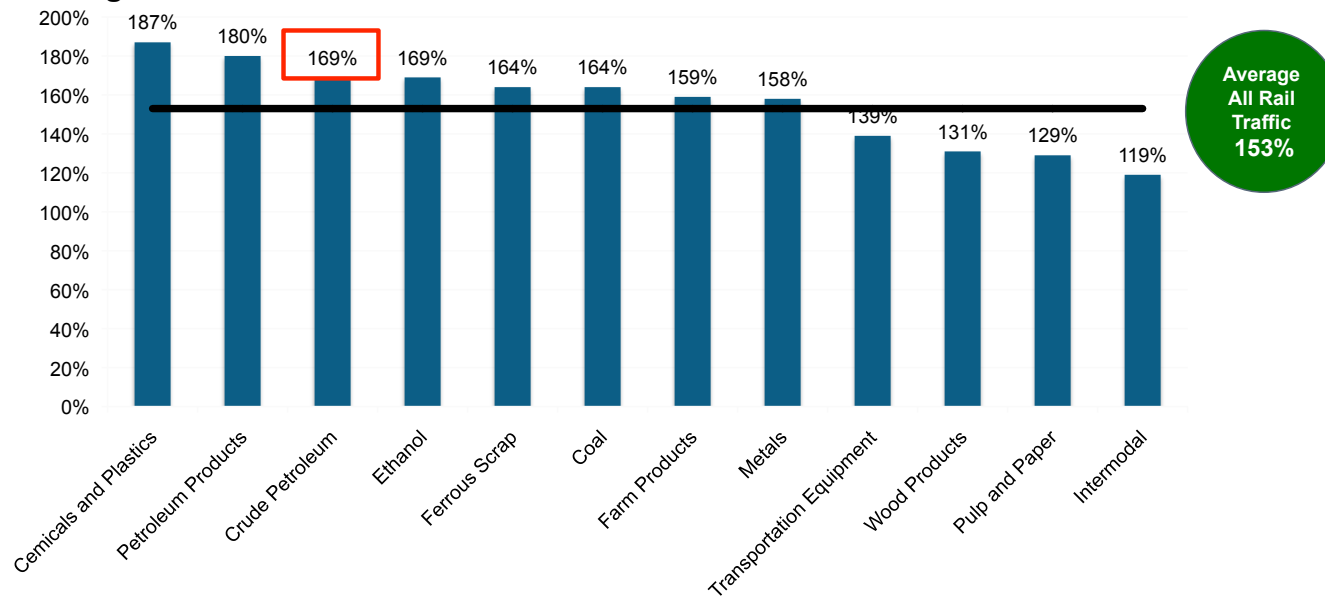
AND THERE IS COMPETITION FOR EXISTING CAPACITY FROM OTHER COMMODITIES

Class I Railroad Revenue Originated 2013



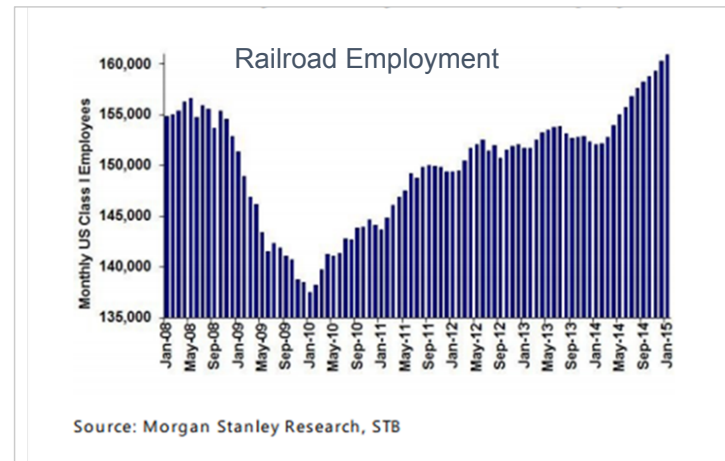
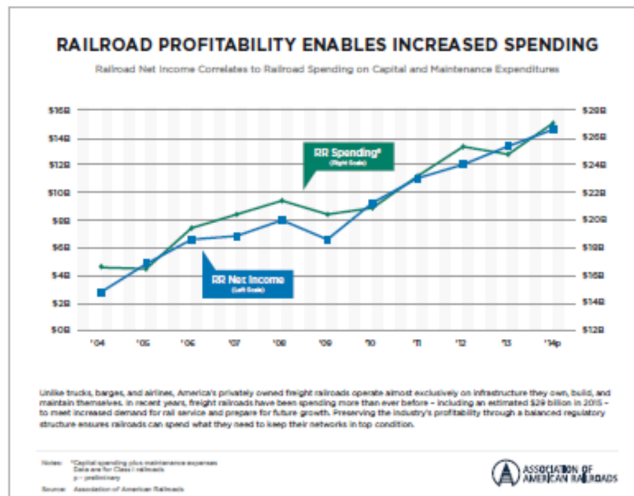
BUT RAILROAD MARGINS ON CRUDE OIL ARE ABOVE AVERAGE

Average Revenue/LRVC Ratio 2013



Source: STB, KEP LLC

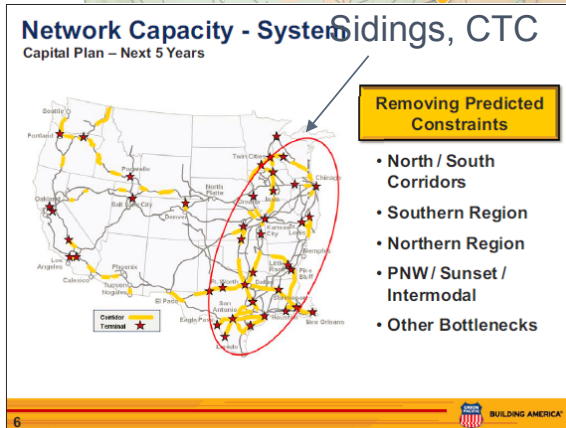
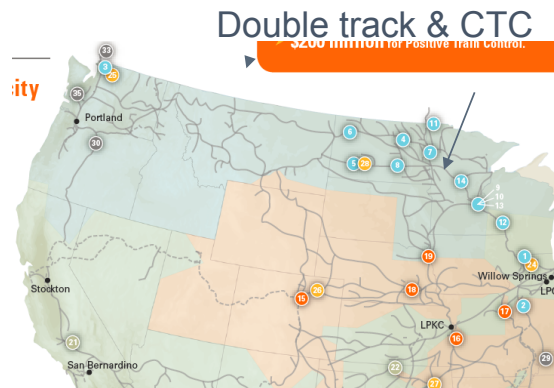
BUT THERE WILL BE PERIODIC CAPACITY CONSTRAINTS WHEN VOLUME INCREASES QUICKLY



Capacity expansion is a “Just In Time” process

It is difficult for railroads to cope with rapid volume increases

BNSF, UP, NS, CSXT 2015 CAPEX



Smithboro - Second I/C track



New tracks, yard expansions





EFFECTIVE RAIL TRANSPORTATION MANAGEMENT MATTERS

- Unit train operations will generally have preference
- Track and manage shipments and measure performance
- Find ways to improve efficiency at plants and customer facilities
- Provide accurate and timely forecasts
- Communicate at all levels, operating as well as commercial

Companies that manage the rail relationships get the best results



SUMMARY

- Railroads do have the capacity to handle crude oil shipments and will in the future
- Crude oil provides good margins for the railroads so the industry can afford the capacity and should have priority
- Rapid increases in volume can create temporary congestion issues – be prepared...
- By effectively managing rail transportation and the relationships with your rail carriers