



# Crude Shipments and Rail Prioritization: A Shipper Perspective

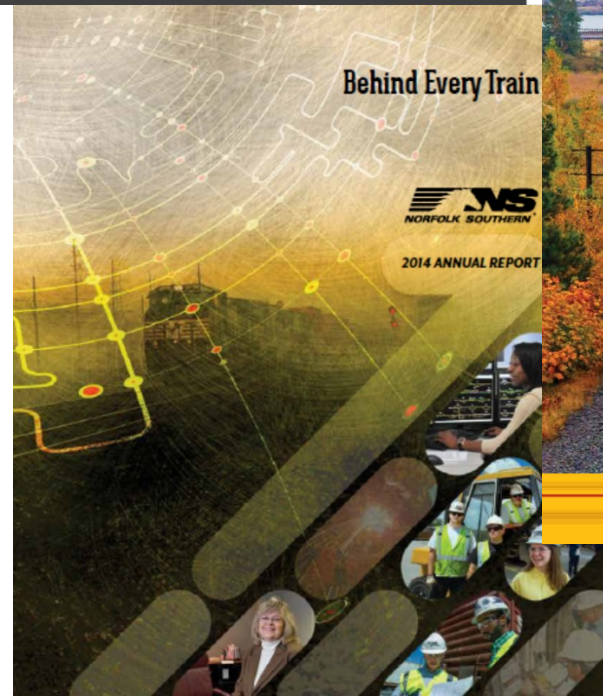
Presentation to:

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# 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

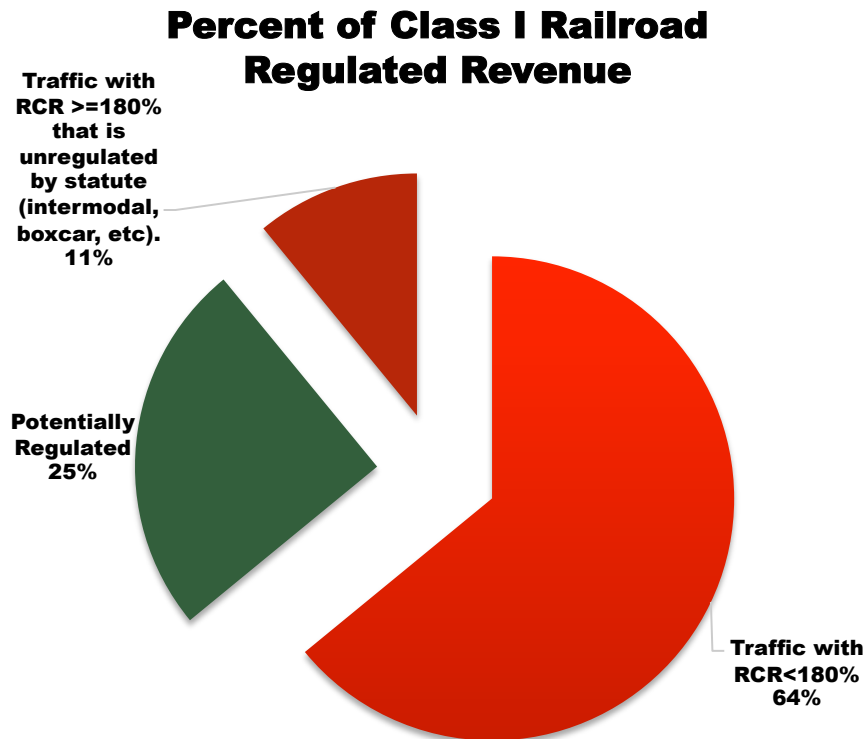


# Investments to Haul Crude by Rail

- 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



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



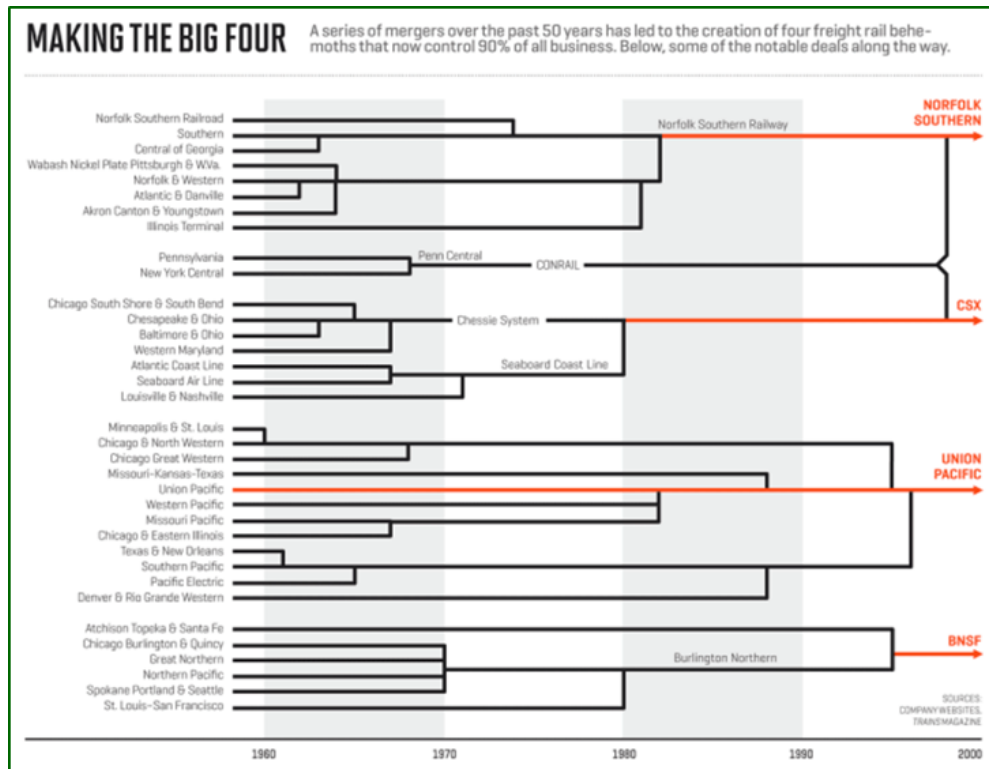
- Balance healthy railroad and captive shipper needs
- Limits on captive rates is SAC and variants
- Ineffective rate capping mechanism for CBR
- “Modernizing Freight Rail Regulation” TRB 2015

# Railroads Shun Risk

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

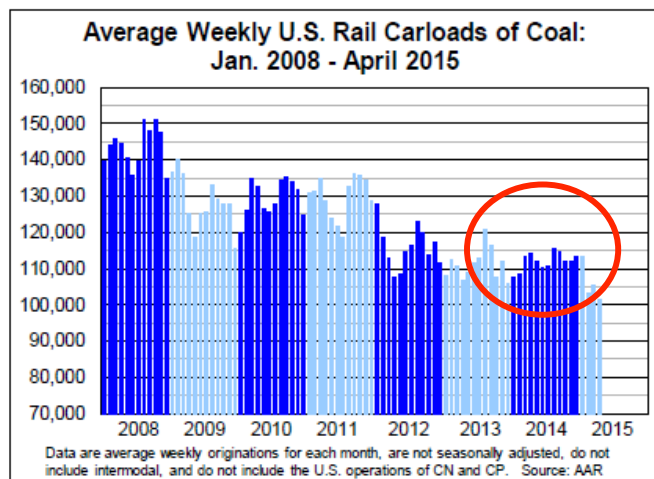
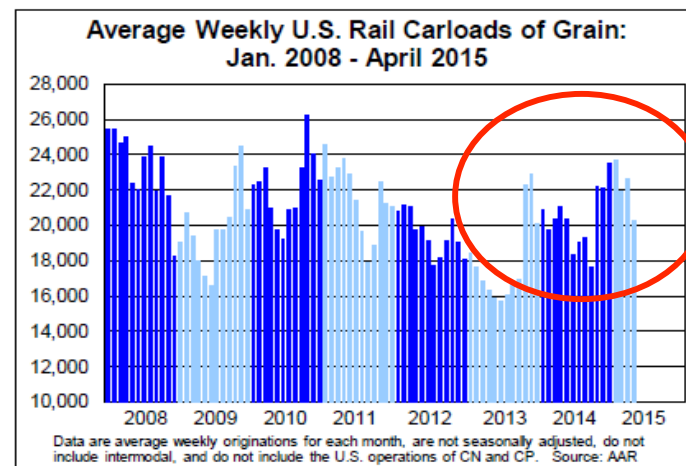
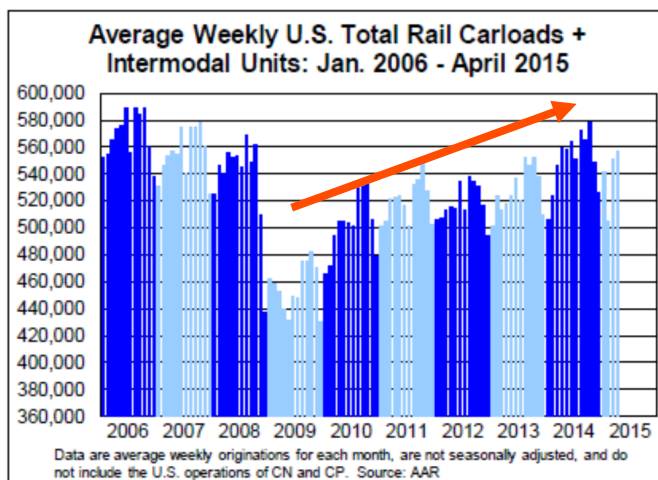


# Market Power



- 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

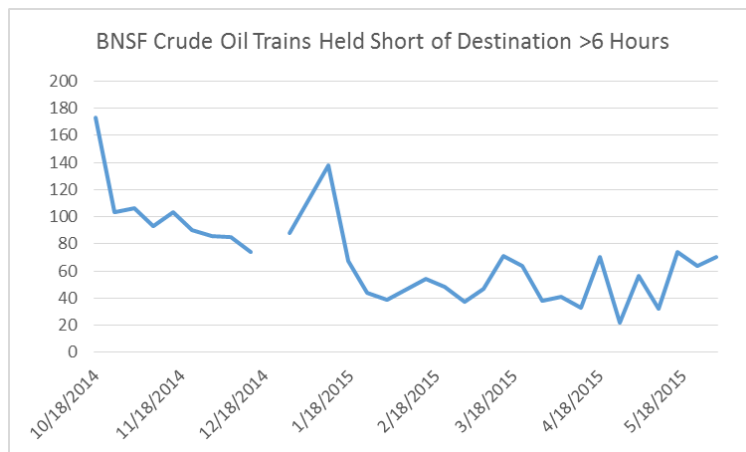
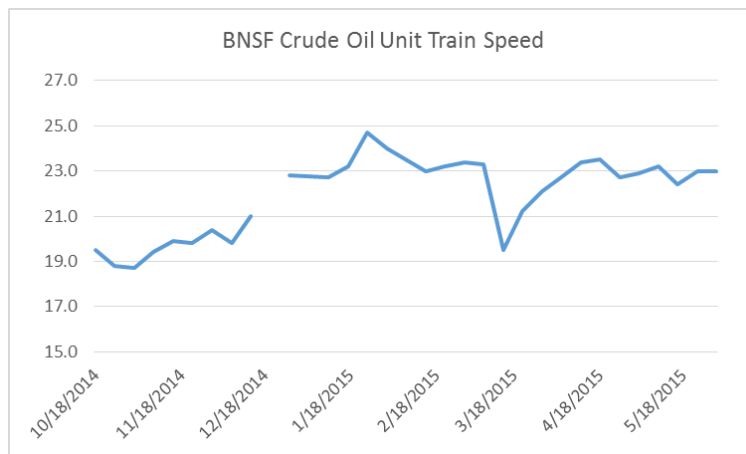


- Continued growth of crude oil, intermodal and other commodities
- Unexpected increase in coal shipments
- Record grain harvest



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

