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Derailment in Pennsylvania Adds to Scrutiny of Crude Shipments

By Eliot Caroom and Dan Murtaugh February 14, 2014

A Norfolk Southern Corp. (NSC:US) train derailment spilled as much as 4,000 gallons of crude just as regulators consider new rules that may add to the cost of transporting oil by rail.
Twenty-one cars, 19 of which were carrying heavy crude, derailed yesterday in Vandergrift, Pennsylvania, 20 miles (32 kilometers) northeast of Pittsburgh, Susan Terpay, a Norfolk, Virginia-based spokeswoman for the company, said in an e-mailed statement. Four cars spilled 3,000 to 4,000 gallons before workers stopped the flow, Terpay said. The company has rerouted shipments to avoid delays, she said.

It was at least the 10th crude derailment in North America in the past year, one of which caused an explosion that killed 47 people in Lac-Megantic, Quebec. Oil producers and refiners have increasingly turned to rail to ship crude as growing production from U.S. shale plays and Canadian oil sands outpaces pipeline capacity.

"The more train derailments occur, the more scrutiny comes to the industry, especially regarding railroads maintaining their tracks," Andy Lipow, president of Lipow Oil Associates LLC in Houston said by phone yesterday.

The train's destination was NuStar Energy LP (NS:US)'s asphalt refinery in New Jersey. The derailment won't disrupt operations, a spokeswoman said.
In January, the National Transportation Safety Board and the Transportation Safety Board of Canada jointly recommended several steps to improve crude oil transport safety. Among them were expanded route-

planning requirements, response plans for incidents and audits of shippers and carriers.

Safe Transport

The U.S. Department of Transportation is "aggressively focused on strengthening the safe transport of crude oil," according to an e-mailed statement from the agency yesterday. Department Secretary Anthony Foxx met with rail and petroleum industry representatives last month to identify ways to improve the safety of moving crude.

Those standards may cost the oil and rail industries $5.2 billion, according to an estimate by Bloomberg Government. Changing routes to avoid towns and cities may be difficult, Kevin Book, managing director of ClearView Energy Partners LLC in Washington, said Jan. 23.

PBF Energy Inc. (PBF:US), which rails crude to a refinery in Delaware City, Delaware, will switch to safer DOT-111A rail cars this year, the company said yesterday.

"We're doing everything we can by providing the safest cars available to carry this crude," Tom O'Malley, PBF Energy's executive chairman, said on an earnings call. "But if you don't keep the trains on the tracks, it's a tough game."

Rail Deliveries

Trains delivered 11 percent of crude produced in the U.S. as of the end of September, 784,000 barrels a day, up from almost nothing four years ago, according to the Association of American Railroads. Shipments of crude by rail in Canada surged last year to 140,000 carloads, or 230,000 barrels a day, from 500 in 2009, according to the Railway Association of Canada.

PBF will have the capacity to deliver 210,000 barrels a day to Delaware by year's end, including 80,000 barrels a day of heavy crude, the company said. Company executives said the firm is getting railed oil from a Buckeye Partners LP (BPL:US)site in Indiana.

Philadelphia Energy Solutions, another East Coast refiner, will add 80,000 barrels a day of capacity this year, CEO Philip Rinaldi said on Jan. 16. Phillips 66 (PSX:US)will add 50,000 barrels a day of capacity to its Bayway refinery in New Jersey in the first half of the year, CEO Greg Garland said last month.

The derailment was the second in Pennsylvania in less than a month. On Jan. 20, seven CSX railcars carrying Bakken oil to the Philadelphia Energy Solutions refinery derailed on a bridge over the Schuylkill River in downtown Philadelphia. No oil spilled.