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CP follows CN, slaps surcharge on older oil tank cars

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CALGARY/TORONTO - Canadian Pacific Railway Ltd. is slapping a surcharge on customers who transport crude in older tank cars, following its larger rival in seeking to deter shippers from using the model involved in a series of fiery crashes.

CP Rail will add a $325 "general service tank car safety surcharge" on each car of crude that is shipped in any container other than the CPC 1232 model, effective March 14, it said in a notice issued to customers and seen by Reuters. The CPC 1232 model refers to those manufactured since tougher safety standards were voluntarily adopted in October 2011.

The new tiered pricing scheme comes the same week that Canadian National Railway Co. also confirmed it was increasing rates for the older variety of DOT-111 tank cars, whose long history of puncturing in accidents came into public focus after the disastrous crash of a runaway crude train in Lac Megantic, Quebec, last summer, which killed 47 people.

"We are concerned about these cars and their use in transporting crude," CP said in the notice.

"Tank car technologies are available today that significantly reduce the likelihood of a release in the event of an incident. We believe these upgraded tank cars are the best investments to enhance safety."

The CPC 1232 design refers to a circular issued by the American Association of Railroads requiring all crude- and ethanol-carrying cars ordered after October 2011 to have enhanced safety features, including reinforced outer shells and protective shields.

Many in the rail industry are growing increasingly frustrated with U.S. and Canadian regulators who have yet to agree on how and when to impose new tank car standards, even as a growing series of oil-train accidents leaves rail operators facing public outrage and damaged tracks.

CP Rail spokesman Ed Greenberg told Reuters that the firm had introduced a "new rate structure for all crude shipments in any car type other than the safest cars."

He declined to discuss the details of the new system, but said it was designed to "encourage shippers to work towards an upgraded tank car standard for crude by rail shipments."

Railroads are not the only companies seeking to shift. U.S. refiner Tesoro Corp is moving to phase out use of the older models "proactively, in advance of the regulations," Senior Vice President Keith Casey told Reuters last week. By the middle of this year, its entire fleet would be made up of the newer model car, the company says.

Industry moves ahead

Pressure to address the older cars has mounted recently following a series of shockingly explosive derailments in Alabama, North Dakota and New Brunswick, some of which involved the older cars. But it may be months if not years before new rules are in place, experts say, and it is unclear how long it will take to phase out older cars.

The charges are meant as an inducement for shippers to upgrade to newer models, but that is unlikely to occur quickly due to a general shortage of tank cars amid booming demand to move fast-growing oil production in inland places like North Dakota, and increasingly Canada, to refiners along the coasts.

The AAR estimated last December that around 92,000 DOT-111 tank cars were being used to move flammable liquids like crude oil and ethanol, with only 14,000 of those built to the new standards. Tens of thousands more tanks are now on back-order with manufacturers, but will not all be delivered until next year.

As a result, some shippers fear the charges may erode the economics of shipping Canadian crude by rail, making it a less attractive option even as mid-stream companies invest billions of dollars to build more than 1 million barrels per day (bpd) worth of terminal and loading facilities in Western Canada.

CP, like other rail companies, has benefited from the oil-by-rail boom. It moved 90,000 carloads of crude last year, and is forecasting to move 140,000 to 210,000 carloads of crude oil a year by the end of 2015. That equates to as much as 400,000 bpd, based on standard cars that carry 714 barrels each.

The CP surcharge would be applied to each older tanker transporting crude oil in packing groups I, II, or III, the CP notice said. It was not clear whether the charge would be applied in U.S. or Canadian dollars.

CN added its fee in January and was charging up to 5 percent in additional freight costs on some DOT-111 cars, industry sources told Reuters this week.

The charges have upset some shippers, who say they are being unjustly penalized for using tank cars that are still allowed by regulators.