

Canadian National raises rates for using older oil tank cars

BY NIA WILLIAMS

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Feb 12 (Reuters) - [Canadian National Railway](#) is charging shippers more to transport [crude oil](#) in older tank cars, one of the first signs that rail operators are actively discouraging use of the type of cars involved in several dramatic explosions.

Confirmation of a tiered fee structure for different models of tank cars comes amid intensified scrutiny on the safety of shipping volatile light crudes by rail, spurred by a series of explosions including the Lac-Mégantic disaster last summer, in which a runaway crude train exploded in the center of a Quebec town, killing 47 people.

Railroads, shippers and regulators across North America have acknowledged that older DOT-111s tank cars, manufactured before higher standards were adopted in 2011, often fail during accidents, making them more likely to spill their cargo and catch fire.

While new rules to upgrade or phase out cars are under consideration, it may be months if not years before they come fully into effect, frustrating many rail companies that often deal with the public fallout and potentially repair costs.

"CN has structured its rates to create an economic incentive for customers to acquire, over time, more robust tank cars that meet the higher safety standard of the more recent CPC 1232 design," said Mark Hallman, spokesman for CN, Canada's biggest railway and a major player in the oil-rail trend.

On Monday, CN chief [marketing](#) officer J.J. Ruest said in a presentation: "What we do to help ourselves is we price crude differently for different car types. ... The CPC-1232 is our favorite car when it comes to pricing or attracting [business](#)."

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.

Hallman declined to comment on the specifics of the rates. A source at a Canadian midstream company said CN was charging up to 5 percent additional freight costs on some DOT-111 cars.

A second source said they were aware that CN had added a charge in January, shortly after a December 30 derailment in which a 106-car BNSF Railway Co train carrying Bakken oil crashed into a derailed grain train and burst into flames.

The shipper said the additional charge could affect the economics of the booming oil-by-rail trade, which has shifted from a tiny niche four years ago to a mainstream method of moving crude from areas ill-served by pipelines, such as the remote Bakken fields and, increasingly, Canada's oil sands.

He added that there was some dissatisfaction among shippers who felt the extra fee, which will have a material impact on the crude-by-rail cost structure, had not been properly explained and suspected it could simply be a cash grab.

Hallman said the economic incentive for customers to use safer cars applied to all CN routes but declined to say what the rates now were for DOT-111 cars or when the changes were introduced.

NEW RULES, BUT WHEN

CN has supported an American Association of Railroads recommendation calling for the retrofitting or phase-out of the old DOT-111 cars and reinforced standards for new tank cars built in the future.

[For a Factbox on tank car safety see ID:nL2NoL50YF]

Crude-by-rail loadings have ramped up rapidly in Canada over the last 12 months as producers desperately seek alternatives to congested pipelines in order to avoid deep discounts of their crude.

But traders in Canada's oil capital Calgary frequently grumble about the rates charged by the railroads, arguing unreasonably high costs will prevent crude-by-rail from becoming a viable long-term alternative to pipelines.

Thus far, there is no evidence that other shippers are following suit, although traders are concerned CN may set a precedent that is quickly followed.

Canadian Pacific Railway spokesman Ed Greenberg declined to comment on whether CP was charging different rates for older railcars.

"We are discussing rate structures with our customers as we work directly with them," he said.

Among U.S. railroads, [Kansas City Southern](#) said it does not currently charge shippers more to use pre-2011 DOT-111 tank cars, according to a company spokesperson.

[CSX Corp](#) said it had no comment on another company's pricing decisions and declined to say whether they would charge more for older tank cars.