

Few oil shippers ready for rail risks, group says

BY AMANDA STEPHENSON, CALGARY HERALD JULY 3, 2014 7:30 AM

One year after a horrific train derailment and explosion killed 47 people in Lac Megantic, an investor education group is calling on publicly traded companies to disclose more information about the risks of shipping crude by rail.

In a briefing note published Thursday, the Vancouver-based Shareholder Association for Research and Education (SHARE) said investors deserve to know whether railways and shippers of dangerous goods have learned the lessons of Lac Megantic.

While companies in the crude-by-rail business have safety programs in place, SHARE's director of shareholder engagement, Kevin Thomas, said in an interview they don't always disclose specific safety performance metrics and targets.

The result, Thomas said, is that investors are left in the dark about the degree of risk and how companies are handling it.

"Lac Megantic was a tragedy that finally brought the focus onto how dangerous this can be, both for the communities these shipments are going through and for the companies that are making the shipments," Thomas said.

"There needs to be enough data for shareholders and analysts to measure whether companies are performing well compared to their peers on health and safety, and we're not seeing enough of that."

Based on a review of the most recent management circulars from 15 companies - the two Canadian railways as well as the major publicly traded energy companies that ship oil by rail - SHARE said only 46 per cent explicitly identified rail transportation as a possible material risk factor for the company.

Thomas said that's surprising, since a derailment, accident, or new government regulations could affect any of these companies' bottom lines by reducing their ability to ship crude by rail.

In addition, while 12 of the 15 companies name safety as one of the factors used in evaluating their CEO's annual performance, only six explicitly identify specific metrics. Not one company identified the actual safety targets executives are expected to meet to earn their bonuses, SHARE found.

For the most part, Thomas said, companies' disclosure is limited to the publication of accident frequency rates. He said the lack of more detailed safety goals, indicators, and targets may be because companies are uncomfortable revealing where they rank among their peers.

"I understand the squeamishness, but on the other side of that, safety targets and measurements aren't really proprietary. They're a public interest measure," Thomas said.

Mark Hallman, spokesperson for Canadian National Railway - one of the companies evaluated by SHARE - said safety measures are embedded in the annual performance reviews for both chief executive Claude Mongeau and chief operating officer Jim Vena.

While CN's 2014 information circular does not specifically link safety targets to executive performance evaluations, Hallman said in 2013 the railway reduced its Federal Railroad

Administration accident rate per million train miles by 9 per cent and its Transportation Safety Board (TSB) accident ratio by 4 per cent. He said over the past 10 years, CN's main-track accidents have declined by approximately 50 per cent despite increased freight volumes.

He said CN's 2013 safety performance as well as key 2014 safety initiatives to reach targets are publicly posted on the company's website.

Canadian Pacific Railway doesn't disclose specific metrics and targets to investors, but safety is a factor in executive compensation, it said.

"CP considers safety, operational improvements and financial success to be linked and not mutually exclusive when it comes to executive compensation," spokesperson Ed Greenberg said.

In addition to the two railways, the other companies evaluated by SHARE were ARC Resources Ltd., Canadian Natural Resources Ltd., Canadian Oil Sands Ltd., Cenovus Energy Inc., Crescent Point Energy Corp., Enbridge Inc., Encana Corp., Enerplus Corp., Husky Energy Inc., Imperial Oil Ltd., Methanex, Penn West Petroleum Ltd. and Suncor Energy Inc.