

TRANSPORT:

Crude first, grains second? Railways rush to clear backlogs

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Surging oil production in North Dakota and icy winter weather have caused headaches for U.S. farmers hoping to ship last year's harvest on crowded railroads.

As railways such as Warren Buffett's BNSF Corp. and Canadian Pacific Railway Ltd. (CP) scramble for extra crews, cars and locomotives to meet shippers' demands, some in the agriculture business say they believe their industry is still being left by the wayside.

"Rail seems to be keeping up with the oil shipments -- but they're doing it at the expense of grain," said North Dakota Farmers Union President Mark Watne, who added that railroads "are trying to address the problem, and of course, we had an extremely cold winter."

BNSF, whose track network in North Dakota is rivaled only by CP's, has said it does not give preference to oil shippers vis-à-vis grain, coal or any other product. Spokeswoman Amy Casas said record winter snowfall in Chicago -- a key rail hub -- exacerbated the current backlog in agricultural products. Unusually cold weather across BNSF's northern corridor also forced the company to run shorter trains and limit crews' time outside for safety reasons, Casas noted.

Watne credited BNSF's efforts but said that as of late February, roughly 75 to 80 percent of last year's bigger-than-average crop was still waiting idle in elevators. "We're just sitting on way, way too much grain," he said.

Meanwhile, North Dakota Petroleum Council spokeswoman Tessa Sandstrom said her trade group hasn't heard many complaints about crude-by-rail delays, even as railways moved about 800,000 barrels per day out of the state in late 2013, up from practically nothing six years ago.

Oil shipments account for about 4 percent of BNSF's total traffic, Casas said. Nevertheless, rail-bound crude's rapid rise to prominence in the Midwest has triggered more than a touch of suspicion about railroads' priorities.

"The level of congestion that we're experiencing, the amount of delays we've seen, seems almost unprecedented," said Bob Zelenka, executive director of the Minnesota Grain and Feed Association, which represents grain elevators and feed mills.

While Zelenka partly accepts the railroads' assertion that severe winter weather is the culprit, he also blames the increase in oil traffic.

"It's just not working very well," he said, adding that the association has encouraged members to contact the Surface Transportation Board, an independent federal agency that regulates railroads.

Board officials have received so many complaints, Zelenka said, that they've scheduled a March 26 meeting in Fargo, N.D., to get input from shippers. Zelenka did not recall the agency ever having held a similar meeting in the "hinterland" before.

Board spokespersons could not be reached for comment late yesterday.

Grains first, crude second?

Agriculture executives aren't the only ones frustrated by the delays.

In February, Sen. Heidi Heitkamp (D-N.D.) sent a letter to BNSF CEO Carl Ice stressing that the "increased rail transportation of oil and gas from the Bakken Formation should not come at the expense of the agricultural shippers that have for many years been reliable customers for the railroad."

In a statement yesterday, Heitkamp said she intends to "continue pushing on the company" to improve.

"After repeatedly putting pressure on BNSF to make changes and stop these delays, they have informed me that they are making record infrastructure investments to help enable more movement on the rails," she said, referring to the \$900 million that BNSF plans to spend this year on maintaining and expanding its northern corridor, an area that includes North Dakota. "It's a step in the right direction, but BNSF needs to move quicker to improve rail service in North Dakota."

While North Dakota posted an above-average crop yield last year, farmers in western Canada enjoyed a record-smashing harvest of 76 million metric tons, 50 percent higher than average, according to the country's agriculture ministry.

The unexpected bounty put pressure on railroads CP and Canadian National Railway Co., which has estimated it won't be able to clear the backlog until 2015. CN spokesman Mark Hallman noted that the company has added 5 percent more train operating crews in the first quarter of this year, in addition to adding 500 grain hopper cars to its fleet and bringing in 10 percent more locomotives.

Despite these efforts, on March 7, Canada's top transport regulator and its agriculture minister jointly ordered CP and CN to double their weekly volumes of grain shipments to hit a combined 1 million metric tons by early April. Falling short of that goal could bring penalties of up to \$89,000 per day, the regulators said.

The temporary order was designed to clear up the bottleneck weighing down the whole system, but crude oil producers worry that it could permanently enshrine grain as a higher-priority shipment. CN's Hallman has also said calls to regulate grain movements are "ill-advised," given their chance to spur "adversarial relationships within the supply chain."

The Canadian government said it plans to introduce legislation next week "to establish measures to ensure Canada maintains a world-class logistics system that gets agricultural products to market more efficiently." Reached for comment, a representative from Agriculture and Agri-Food Canada was not immediately able to offer details on the proposed legislation yesterday. Transport Canada spokeswoman Sandra Boudreau said "the details of this legislation will become available upon its tabling."

Glen Perry, vice president for marketing at Calgary, Alberta-based Grizzly Oil Sands ULC, urged regulators not to give grain preferred treatment in a March 14 letter to Minister of Transport Lisa Raitt.

"I'm not complaining about the lack of [rail] capacity -- these are rises and falls and that's how this market works," said Perry, whose company has invested roughly \$100 million in crude-by-rail infrastructure. "What I'm complaining about is discriminatory legislation."

Watne of the North Dakota Farmers Union has the opposite worry -- that crude shipments, not grains, earn railways' special attention. He said the number of hopper cars overdue for grain loading hit a peak of around 12,000 on March 11.

"We're hoping it'll start to decline now," he said. "The real question is -- will we get last year's harvest out of the storage centers before next year's harvest?"