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Argus *Rail Business*

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ANALYSIS

Snarls set tone for 2014

Rail service is slowly improving as the year ends, but not before shippers and regulators were forced to take a new look at the industry.

The service troubles that marred 2014 put railroads in the sights of shippers, regulators and legislators after the industry had managed to stay under the radar during the economic slowdown of years past. Shippers say that increasingly they are being forced to slow or shut down production because railroads cannot deliver traffic or receive railcars from their sidings because of crew and locomotive shortages.

Recent data show a decline in yard dwell times at BNSF, suggesting the western carrier may be close to turning a corner. But it could be too little, too late for many customers.

Rail capacity improvement starts in yards and terminals, so as carriers regain terminal space their trains can move more freely across main lines. As fewer trains wait on main lines for spots in yards to open up, main line capacity is enhanced, leading to more-predictable transit times for shippers.

Shippers are frustrated by a lack of predictability and an evolving congestion picture that is not limited to just one area or commodity.

The railroads misjudged demand in 2014 and were not prepared to handle strong volumes, and it showed in their lagging performance. Railroads believed that the second quarter's strong volumes were temporary after severe winter weather in the first quarter stunted shipments and pushed demand into the subsequent quarter. But when that demand kept going in the third quarter, railroads were caught unprepared, and they had to adjust capital budgets and move resources around on the fly.

Unfortunately for railroads and their customers, locomotives and train operating employees are not items that can be replaced easily or quickly, making for a long struggle as railroads strive to balance heavier demand for shipping against finite resources.

New locomotives are especially hard to find heading into

Note to subscribers: *Argus Rail Business* will not publish on Monday, 29 December. The next issue will be on 2 January, 2015.

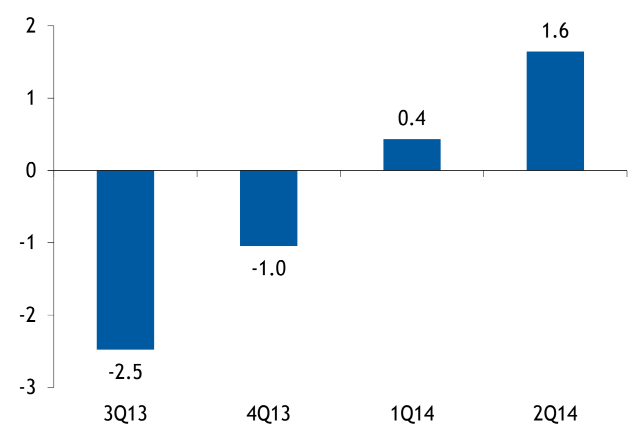
QUARTERLY COMMODITY STATISTICS

Crude and natural gas products, 2Q14 vs 2Q13

	Revenues *mn$*	Volumes *cars*	Change *cars*	Revenue/ car *$*	Change *$*
BNSF	367.1	95,341	+10,776	3,850.71	+101.03
Canadian National	21.8	15,009	+7,650	1,453.16	-504.63
Canadian Pacific	56.4	22,815	+3,039	2,470.27	-78.94
CSX	81.1	31,254	+21,060	2,593.62	+351.69
Kansas City Southern	4.7	2,360	-1,509	1,976.01	-81.
Norfolk Southern	66.8	23,281	+3,656	2,869.18	+38.94
Union Pacific	110.7	36,118	-11,810	3,065.33	+138.76

— Argus rail analytics database

Change in crude and natural gas products yield %



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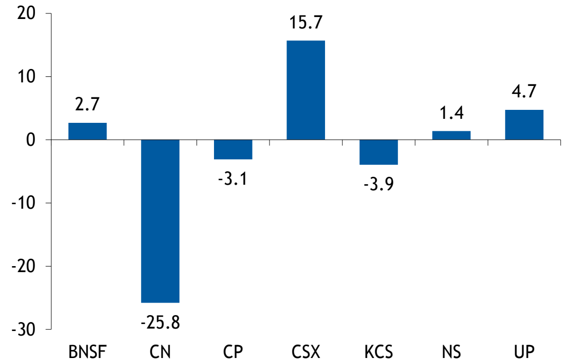
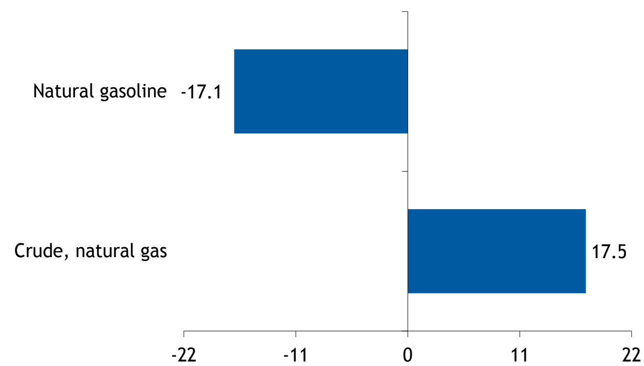
QUARTERLY COMMODITY STATISTICS

2Q revenue/car change over year %



2Q revenue growth on year by commodity %



ANALYSIS

2015 because one of the industry's largest manufacturers, Progress Rail, will have to suspend new-unit construction on 1 January. It does not yet have a design that complies with new Environmental Protection Agency mandates on air pollution and locomotive exhaust. Progress' shutdown means the entire industry has to go through General Electric (GE) for new locomotives in 2015 for at least a year and possibly longer, but GE is probably sold out for at least next year. Aggressive buying in recent years by BNSF and other big carriers helped create the strong backlog for new units.

Each Class I carrier employs an operating plan that tells it how the network should operate and how many locomotives and crews are required, but when volumes top those expectations, velocity slows and service crumbles.

The service problems have been good for locomotive and railcar lessors as railroads sought to buy more locomotives from any available sources, including in some cases each other. CIT Rail and GATX have particularly benefited as railroads look to lease locomotives they were unable to buy outright. Shippers increasingly scrambled this year to find cars to move the same amount of traffic because the longer transit times limited car supply. These ripples hit all markets, but especially the already tight tank car market where some crude shippers moving cars out of western Canada experienced cycle times that hit 50 days.

The widespread and long-lasting nature of the service problems has attracted interest in Washington, DC, and could put more pressure on railroads if service does not improve quickly in the new year.

The Surface Transportation Board is much busier handling shipper complaints about the service snafus. The board held several hearings this year in the upper midwest to hear directly from shippers and grapple with the extent of the disruptions on companies moving goods by rail. A public hearing this fall in Fargo, North Dakota, was standing room only as shippers from the coal, grain and other commodity sectors told the board about their problems. The meeting ended with the board finding consensus to put more traffic reporting requirements on railroads.

The board has been forced to deal with the service problem while it copes with other large proceedings including one on reciprocal switching that largely stagnated in 2014 and another on its rules regulating railroad fuel surcharges that started this year.

The added regulatory spotlight could set the stage for a 2015 that brings new regulatory mandates for carriers, either from regulators or Congress.

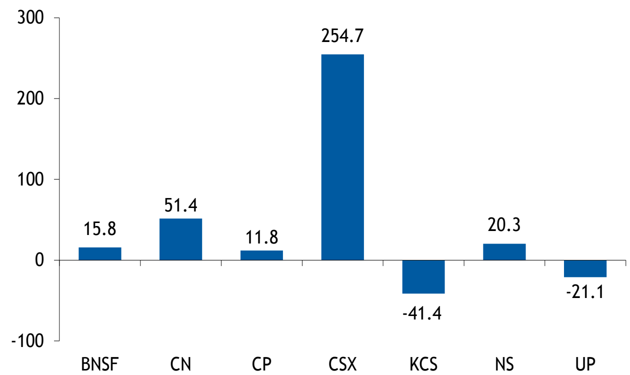
US Class I and major railroads traffic

	Week ended 13 December		YTD	
	Carloads	Change	Carloads	Change
Chemicals	30,818	6.7%	1,505,983	1.3%
Coal	119,710	7.8%	5,600,562	0.7%
Farm and food products	17,585	5.8%	833,029	1.4%
Forest products	11,068	5.4%	561,707	2.7%
Grain	24,194	17.1%	1,017,366	13.4%
Metallic ores and metals	28,778	24.4%	1,284,936	3.8%
Motor vehicles and parts	19,163	5.2%	847,531	3.1%
Nonmetallic minerals and products	36,165	28.8%	1,796,942	8.6%
Petroleum and petroleum products	17,074	23.0%	767,623	13.0%
Other	7,716	2.5%	401,107	5.6%
Total carloads	312,271	12.1%	14,616,786	3.8%
Intermodal units	280,337	4.5%	13,042,623	5.2%
Total traffic	592,608	8.4%	27,659,409	4.4%

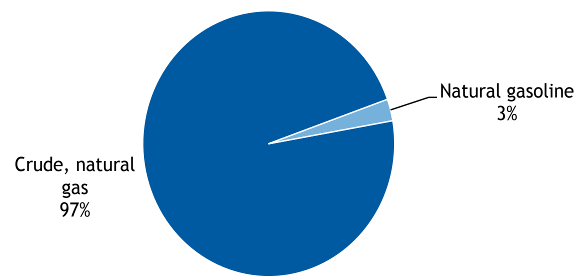
Excludes two Canadian railroads *— Association of American Railroads*

QUARTERLY COMMODITY STATISTICS

2Q revenue growth on year by railroad %



2Q crude and natural gas products mix %

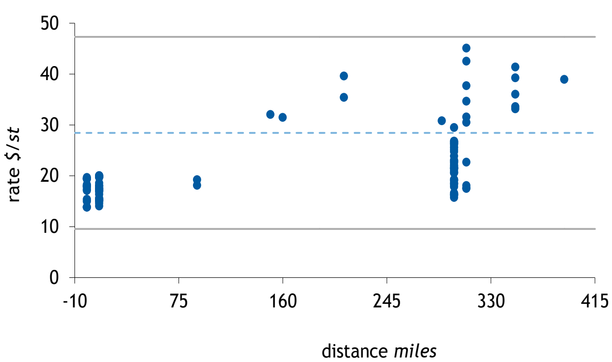


WAYBILL ANALYSIS

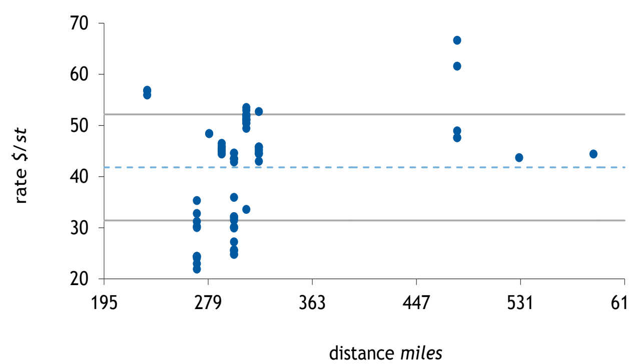
Surface Transportation Board 2011-2012 Waybill sample rates for liquified petroleum gas (29121)					
		BEA Origin area, including: Los Angeles, California (BEA 160)			
BEA Destination area, including:		**2011**	**2012**	**Change**	**Percent change**
Los Angeles, California (BEA 160)	*$/st*	25.07	28.44	3.37	13.4%
	$/carload	2,171.29	2,126.61	-44.68	-2.1%
	total carloads available	137	214	77	56.2%
San Francisco, California (BEA 163)	*$/st*	34.81	41.80	6.99	20.1%
	$/carload	2,859.31	2,669.27	-190.03	-6.6%
	total carloads available	121	132	11	9.1%

— *Argus analysis of Surface Transportation Board Public Use Waybill File*

Los Angeles, California to Los Angeles, California



Los Angeles, California to San Francisco, California



Solid line denotes average rate; upper dashed line, average rate plus one standard deviation; and lower dashed line, average rate minus one standard deviation

The Surface Transportation Board's public waybill samples show movements of commodities moving from one origin in the country to several other destination regions. It shows a pricing sample for commodity traffic moving in specific lanes on the US railroads. The waybill, although not completely representative of movements and rates in given lanes, offers a sense of direction in rates and traffic patterns over time.

RAIL TRENDS

Rail service finally turns corner

A writer and industry consultant, Larry Kaufman has worked for Business Week and the Journal of Commerce and he was an executive with the Association of American Railroads.

What a year it has been for railroads and shippers as capacity and service move to center stage and threaten to derail the industry's virtuous circle by violating a core tenet of its relationship with shippers.

A principal thread was capacity, or rather a lack of it. Railroads simply ran out of capacity, which seriously affected their service quality. The lack of capacity stemmed from several factors, as is usually the case.

The year began with virtually the entire US in the grip of record-shattering winter weather that prevented trains from operating efficiently.

Capacity can be measured in several ways. Cold reduces locomotive pulling power by preventing them from maintaining sufficient air pressure in their reservoirs to operate air brakes. More locomotives had to be added to trains while still other trains were forced to operate with fewer cars and less tonnage than normal.

While cold cut locomotive capacity, operating problems cascaded throughout each railroad's system. Crews that could not complete their runs were required to remain with their trains until they were relieved. That kept them on the job even if it was only to secure their trains. With crews unable to reach their destinations, operating executives were faced with a shortage of engineers and conductors triggered by the unanticipated weather. When trains could neither get out of or into yards because of the crew issues, locomotives and operating employees were out of place and unavailable for their next scheduled train.

System fluidity became wishful thinking as crew and equipment shortages occurred right as carriers faced record amounts of freight. Railroads were simply overwhelmed.

Record demand for rail service came from a variety of sources, most notably the burgeoning volume of crude brought to the surface by hydraulic fracturing.

Simultaneously, economic growth stimulated more intermodal volume, while a record grain harvest placed added demand on railroads to move crops to export terminals and domestic processing facilities.

Railroads had to deal with an overabundance of railcars generated by the increasing volume of freight to be moved, leading to further congestion. Coal made a comeback as a key commodity, particularly in the west, where BNSF and Union Pacific move Powder River basin coal to utilities rebuilding stockpiles. Production is up 9pc from Wyoming in the last four weeks from the prior year.

Railroads contended with political issues as so-called captive shippers — those served by only one carrier — made louder demands for artificial competition. The shippers are dissatisfied with what they see as usurious rates they are being charged while receiving poor service for their money. Railroads consider such actions "reregulation," while shippers think their demands are reasonable, considering how much they were being forced to pay for what they considered inferior rail service.

A proposal to have the Surface Transportation Board (STB) mandate that captive shippers get access to a second carrier went nowhere during 2014 after being introduced in 2013, but the issue is certain to come back again in 2015. Shippers started saber-rattling that they will seek legislation next year if the STB does not voluntarily agree to their petition.

Late in the fourth quarter, weekly metrics of rail performance suggested that the rail industry finally was recovering from the issues that had so clearly affected service for close to a year.

Locomotive dwell times in terminals plunged. Miles traveled per day climbed, and data on the number of trains being held in terminals for crews or locomotives showed significant improvement.

Railroads spent large sums developing and starting implementation of a federally mandated positive train control (PTC) collision avoidance technology. Estimated to cost $10-15bn, PTC is supposed to prevent most train collisions.

The concept is that if the precise location of a locomotive is known to dispatchers and the length of the train it is pulling also is known, the system can alert an engineer to an impending crash and even take over the train's braking system if the engineer ignores a warning.

PTC was mandated by Congress following several fatal collisions and is required by law to be in service by the end of 2015, a deadline that few expect to meet. The law does not prescribe any penalties for failure to meet the deadline.

Financially, railroads showed no ill effect from difficulties in handling available business or the required investments in PTC. Class I carriers reported consistently strong earnings each quarter, and a number increased dividend payments to stockholders.

Despite having more business than they could handle efficiently, railroads invested a record $26bn on capital programs such as double-tracking rail lines, buying new and used locomotives, and extending existing sidings to allow faster trains to overtake slower ones. At some locations, a third track was built essentially to serve as a parking lot for the railroad undertaking the project.

At Tower 55 in Fort Worth, Texas, for example, an average of 100 BNSF and Union Pacific trains a day passed through the crowded junction. Completion of a major project late in the year is expected to help alleviate some of the congestion and contribute to restoring service levels on the rail system.

DIESEL FUEL PRICES AND CARLOAD FUEL SURCHARGES

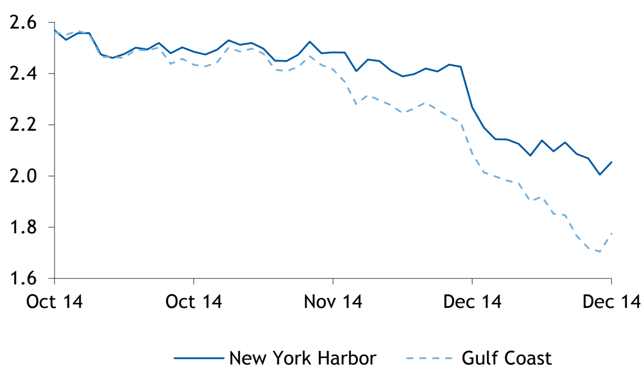
Diesel fuel prices				$/USG
		Monthly average		Weekly average
	Nov 14	Oct 14	Change	ended 15 Dec
San Francisco spot ULSD	2.42	2.67	-0.25	1.88
Houston spot ULS	2.33	2.50	-0.17	1.81
New York spot ULS	2.45	2.53	-0.08	2.10
Los Angeles spot ULS	2.41	2.59	-0.18	1.88
Chicago spot ULS	2.71	2.65	+0.06	1.88
Tulsa spot ULS	2.67	2.67	0.00	1.89
DOE retail on hghway diesel	3.65	3.68	-0.03	3.42

Estimated carload fuel surcharge				¢/mile
Jan 15	Strike price	¢/mile	500 miles	1,000 miles
BNSF	2.50	0.34	170.00	340.00
CN ($US)	2.30	0.27	135.00	270.00
CP ($US)	2.25	0.31	155.00	310.00
CSX	2.00	0.42	210.00	420.00
KCS	2.30	0.38	190.00	380.00
UP	2.30	0.31	155.00	310.00

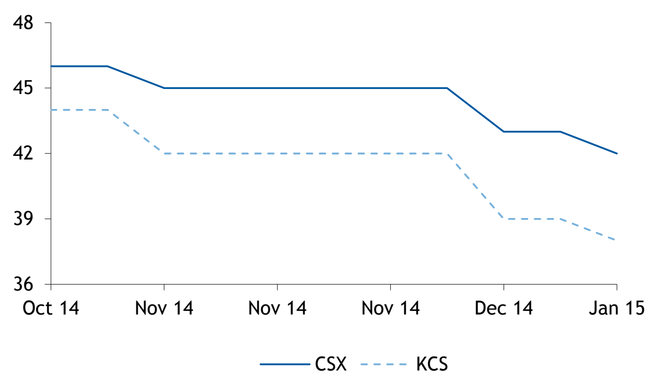
When the diesel price meets or exceeds the strike price, the railroad will begin to apply its mileage-based surcharge at the above rate. CP value covers 1 Jan to 15 Jan

— Class I railroads

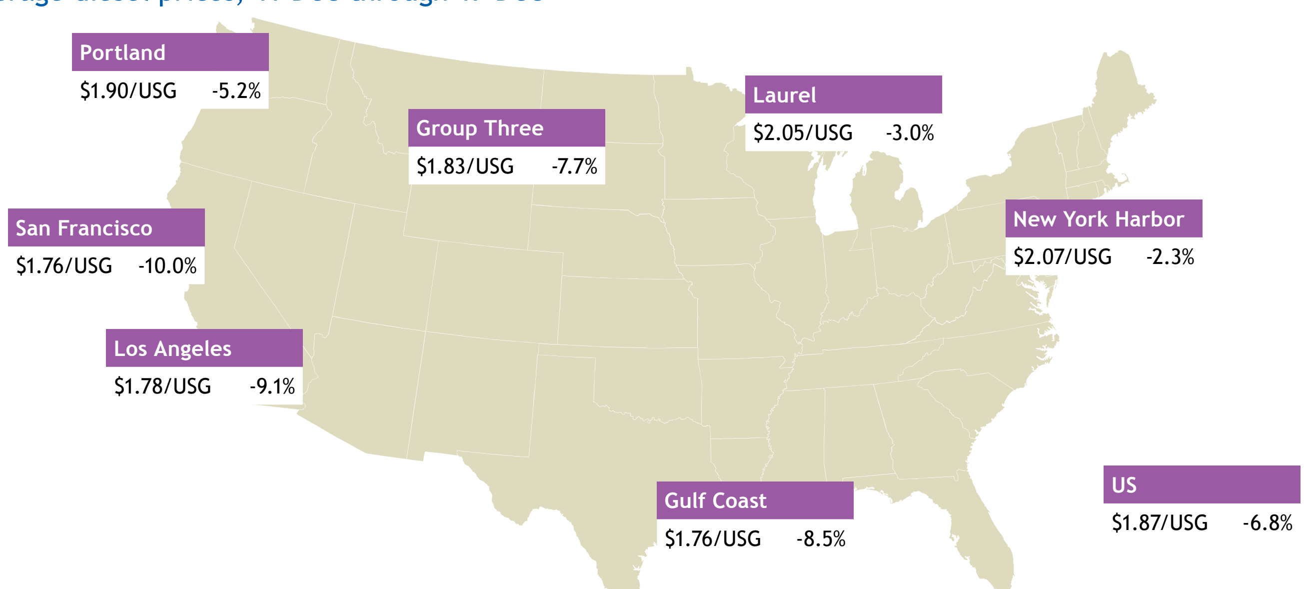
Argus diesel: New York Harbor vs Gulf coast $/USG



Fuel surcharges: CSX vs KCS ¢/mile



Average diesel prices, 11 Dec through 17 Dec



Average diesel prices are based on a rolling five-day average of days assessed. Change reflects the average of the five days preceding the current five days. The US price is the average of the other listed prices.

SERVICE METRICS

Average train speeds				*mph*
	Average four weeks ended 12 Dec 14	Average four weeks ended 13 Dec 13	Change	Percent change
BNSF	22.1	22.6	-0.5	-2.2%
CSX	20.6	22.8	-2.2	-9.6%
KCS	26.9	27.8	-0.9	-3.2%
NS	20.1	23.9	-3.8	-15.9%
UP	24.1	25.6	-1.5	-5.9%
CP	19.3	17.5	1.8	10.3%
CN	25.5	26.2	-0.7	-2.7%

Dwell times				*hours*
	Average four weeks ended 12 Dec 14	Average four weeks ended 13 Dec 13	Change	Percent change
BNSF	28.1	29.9	-1.8	-6.0%
CSX	26.6	23.9	2.7	11.3%
KCS	23.4	22.4	1.0	4.5%
NS	29.7	22.0	7.7	35.0%
UP	31.7	28.7	3.0	10.5%
CP	na	na	na	na
CN	17.9	16.0	1.9	11.9%

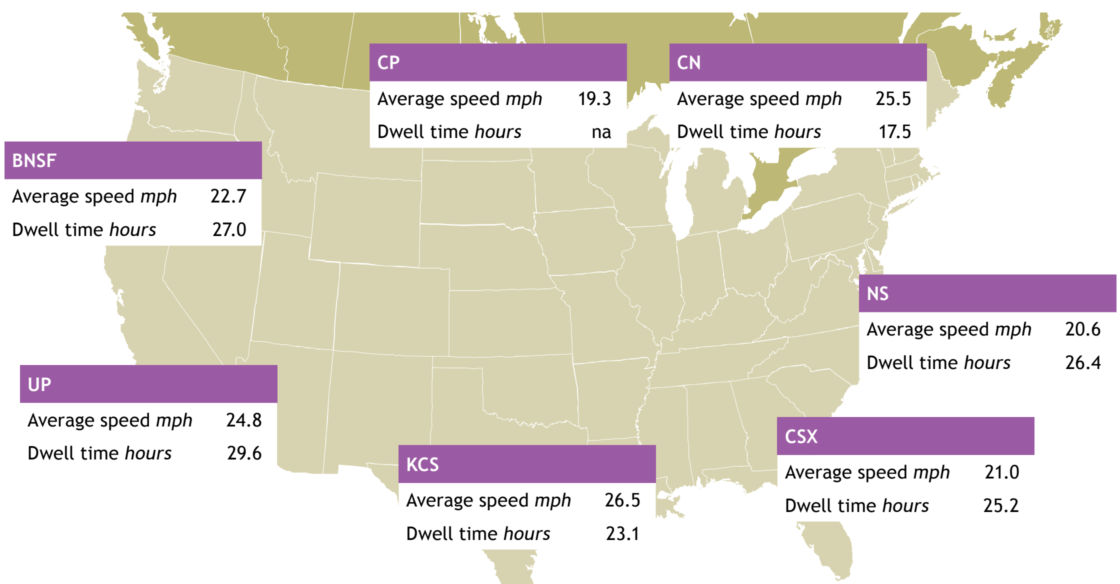
■ Railroad velocity is under challenge as year-end nears, following a trend that has persisted through 2014. The eastern carriers are most-affected, December data show.

■ CSX and Norfolk Southern train speeds declined more than any other carriers in the four weeks to 12 December than in the prior year. Canadian Pacific's trains were the slowest on an absolute level, moving at 19.3mph in the latest four weeks.

■ Dwell time gained at every carrier except BNSF in the same four weeks. The western railroad's dwell time fell by 6pc to 28.1 hours compared with close to 30 hours in the same period last year. The latest four weeks included the Thanksgiving holiday when many carriers shut down and BNSF operated normally, which could affect its numbers.

Weekly stock price update, 18 Dec					$
		Change since:		Change since:	
	Close	Last week	Percent	Last year	Percent
CNI	67.45	3.10	4.8%	12.21	22.1%
CP	191.57	16.87	9.7%	42.13	28.2%
CSX	36.06	0.68	1.9%	8.43	30.5%
GWR	87.76	0.90	1.0%	-6.98	-7.4%
GBX	48.80	3.08	6.7%	16.41	50.7%
KSU	118.02	6.15	5.5%	-1.90	-1.6%
NSC	108.98	6.35	6.2%	19.29	21.5%
TRN	28.40	0.54	1.9%	1.39	5.1%
UNP	118.87	4.52	4.0%	37.87	46.8%
Dow Jones					
Transportation	8,953.33	26.28	0.3%	1,746.16	24.2%
Industrials	17,778.15	181.81	1.0%	1,610.18	10.0%

Average speed and dwell times, 12 Dec



— *AAR*

NEWS

FERC wades into generators' coal delivery woes

US generators that have had coal deliveries delayed by rail congestion found a sympathetic ear at the Federal Energy Regulatory Commission (FERC) last week, but the agency's lack of authority over railroads will restrict its ability to drive changes.

FERC devoted much of its monthly meeting to railway delays that this year have cut into utilities' coal stockpiles. Midwest generators served by Berkshire Hathaway-owned BNSF have felt the brunt, with stockpiles in Iowa and Oklahoma dropping by more than 40pc in September from a year earlier. The problem is expected to last through 2015 as crude train traffic adds to congestion.

Coal deliveries forced Minnesota Power to suspend operations at four generating units this year. The utility's head of external affairs Dave McMillan said that "service woes" with BNSF subsided in spring but came back later this year, forcing the utility to suspend its coal units. Without action from the Surface Transportation Board, McMillan worried there could be more coal delivery delays coming.

But BNSF chief marketing officer Steve Bobb cautioned against efforts to prioritize coal traffic above other shipments, as some coal suppliers have requested from the railroad regulator, because he said that would only shift the problem to other commodities. Bobb acknowledged the railroad had "clearly not met expectations" but noted the investments it is making to ease congestion.

FERC members pressed the railroad on service problems, with FERC commissioner Tony Clark raising claims from generators that crude trains have been prioritized on congested routes because they are more profitable.

Bobb said his railroad's operations staff works to maximize volume and does not factor in rates, but said the railroad will prioritize a train if a customer's inventories become critically low.

Coal delivery problems could become a particular concern in the next two years because of the many planned coal plant retirements that will increase pressure on the ability of the remaining coal plants to perform. FERC member Philip Moeller urged the railroads to become familiar with when certain regions will face tight reserve margins so they can focus on improving service.

Only the Surface Transportation Board could issue an order forcing railroads to prioritize coal traffic. FERC chairwoman Cheryl LaFleur said her agency's role at this point in responding to rail delivery problems would be to closely monitor the situation.

Canada to study grain hauls

The question of how much rail capacity is available in Canada for grain shipments is up for debate as a five-member panel studies the subject for a report due in December 2015.

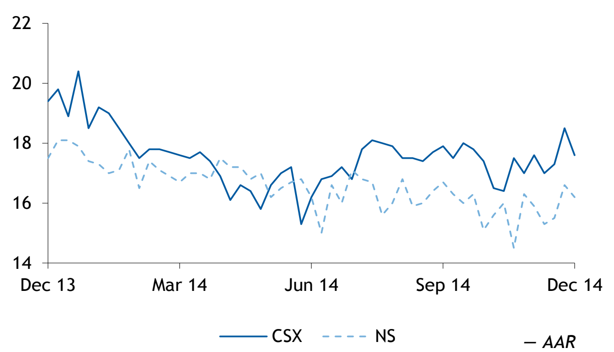
Canadian transportation minister Lisa Raitt launched the review in June to study grain transport via rail in light of the severe backlog that started with last winter's severe weather. The study of grain shipments is part of a statutory review of all of Canada's transportation modes that occurs every four years, but the grain review started a year early because of the shipping backlog.

A preliminary review of grain transport is to be sent to the government this month. Raitt's office did not return a request for comment.

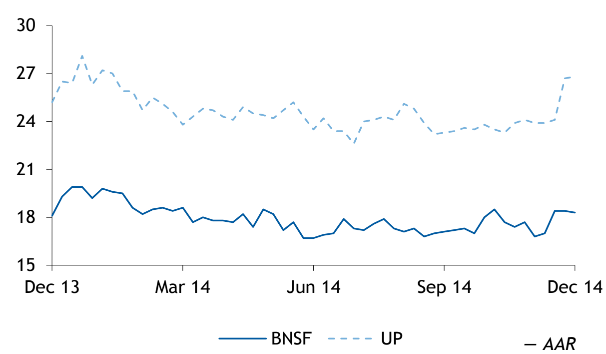
As expected, grain shippers and rail interests differ on how

SERVICE METRICS

CSX vs NS coal train speeds *mph*



BNSF vs UP coal train speeds *mph*



NEWS

the Canadian government should implement tools to facilitate railed grain exports.

Shippers tend to conclude that there is a shortage of rail capacity in some corridors, although the shortage exists because of a variety of factors, transportation attorney François Tougas told *Argus*. Congestion generally occurs when a rail carrier wants to transport higher-margin traffic, such as crude, over lower-margin traffic. A carrier may accept too much of the higher-margin traffic or it may be required by law to carry lower-margin traffic, resulting in congestion overall.

But a commodity's access to competition can also affect congestion, Tougas said. For each commodity, the carrier controls the level of resources it provides in the form of access to the network, numbers of locomotives, equipment, fuel and crews. When a commodity is captive, the rail carrier can determine how much of the commodity it is willing to transport because it does not have to compete with another carrier's service and rates.

But when a commodity has access to competition, it is actually in the rail carrier's financial interest to limit capacity because doing so would encourage shippers to bid higher to gain access to that limited capacity, Tougas said.

As a result, what the Canadian government should do to encourage capacity for all commodities, including grain, is to promote actual competition, in which the carriers would be allowed, in prescribed circumstances, to run over the lines of another carrier. Doing so would allow market forces to help shape the outcome, the attorney said. Canada could also create surrogates which would result in output gains for shippers, Tougas said.

Another possible solution is to make more information public on how much capacity the rail carriers actually have, the attorney said. In Canada and unlike the US, how much information to disclose about capacity is left up to the carrier, leaving most shippers and the government in the dark about available capacity, he said.

While shippers may believe that a carrier's capacity to haul grain may be an issue, the railroads have a different conclusion.

"We do not see this as a capacity issue. … We do not have what we would call capacity constraints," Railway Association of Canada president Michael Bourque said.

Bourque attributed the grain backlogs of last winter to two unusual conditions. The first was that Canada had its largest grain crop in 100 years, which was 20mn t greater than an average crop. The second was that the country had its worst winter in 75 years, which affected all parts of the supply chain. For instance, Thunder Bay was almost a month late in opening because the waters were frozen and there were not enough ice breakers.

As a result, throughput was slowed, Bourque said. When temperatures reached -25°C, carriers had to shorten trains because the severe cold affected brakes and other components, all while shipping the largest grain crop in decades.

While some may contend that crude shipments compete with grain, Bourque disagreed, noting that crude travels to Prince Rupert, British Columbia, so there is no conflict. Crude makes up less than 5pc of total carloads, and there is no evidence to show that crude has disrupted grain shipments, he said.

The association's recommendations for the review panel are threefold, Bourque said. First, the government should continue the commercial direction it set for the rail carriers years ago. He said the existing policy framework, which included the privatization of Canadian National (CN), has enabled railroads to reinvest in their networks while also creating the shortline industry.

"We operate in Canada a very efficient, cost-effective network which is similar to a bus route. Because we operate it like a bus route where we operate that [rail] network, we are able to offer low prices," Bourque said. "It is not really like a limousine or taxi service."

The second recommendation calls for the government to participate in maintaining the infrastructure for shortlines, since shortlines compete with trucking, which has government subsidies in the form of roads, he said.

The third recommendation is for federal investments to work alongside rail capital projects on rail crossings, since crossings can slow velocity in populated areas. Federal involvement may include investments in grade separations, such as bridges and tunnels in cities and where railroads and streets interact, along with more concerted efforts to close crossings.

As for grain shipments, the association would like to eliminate the maximum revenue entitlement, which enables grain shippers to pay less to ship a ton of grain than other commodities, Bourque said. The higher revenues that would result from ending this provision would result in increased amounts of money available for capital projects for grain, such as the purchase of new grain cars as the oldest ones near the end of their usable life, he said.

The review comes as Canadian-headquartered carriers CN and Canadian Pacific (CP), along with other Class I rail carriers based in the US, grapple with severe shipping backlogs. In addition to initiating the transport study for grain a year earlier than scheduled, the Canadian government gave a ministerial order to CP and CN to carry certain levels of grain per week, or face penalties. That order was recently extended through 28 March 2015.

NEWS

Raitt also introduced a bill in Parliament, Bill C-30, to extend inter-switching limits from a 30km (18.6 miles) radius to a 160km radius for grain originating from Alberta, Saskatchewan and Manitoba. Inter-switching limits are similar to reciprocal switching in the US and compel a rail carrier to transport grain, at a regulated rate, to a competing carrier at an interchange between the two to move the grain along to its destination.

Rail service problems persist for perishables

Inconsistent rail service and congestion are still big problems for those in the time-sensitive intermodal industry, although the severity of the trouble varies.

Shippers dependent on timely rail service like United Parcel Service (UPS) and those moving perishables by rail are acutely affected by the snafus that plague long-distance shipments.

Tiger Cool Express specializes in moving fresh produce over long distances and chief executive Tom Finkbiner said his company sees congestion popping up unpredictably throughout the US rail network. Congestion can occur on the main line or in Chicago, or at origin and destination terminals.

"We see no improvement whatsoever. The problem moves from one place to another," Finkbiner said.

It started when congestion on BNSF cascaded onto Union Pacific (UP) and clogged UP's lines, he said. Then terminals at Chicago became clogged, which affected the ability to interchange east-west freight. Then the traffic issues spread to eastern lines CSX and Norfolk Southern. Even Canadian National and Canadian Pacific were not spared.

There are different root causes each time there are delays or congestion, Finkbiner said. Tiger Cool Express' on-time service in November was about 26pc, compared with 85-95pc during the summers of 2012 and 2013.

"It is like the pig moving through the python: as congestion moves through the rail network, you get different areas of poor service all through the country," Finkbiner said.

While Tiger Cool Express is still experiencing service issues, UPS, which relies mainly on its ground network of trucks, told *Argus* that its service problems have cleared several months ago leading into November.

"Rail is not a service concern at this point and we do not think it will be for the near future," UPS said.

Meanwhile, XPO Logistics told investors on its third-quarter earnings call last month that rail service is improving despite persistent snags.

"The service levels are still congested, there is no question about that. They do look like they bottomed out [from] a couple of months ago and things have gotten better," XPO chief executive Bradley Jacobs said.

Despite the service troubles, XPO's intermodal volumes and revenue were up in the third quarter, indicating a trend away from using trucks and over-the-road service to employing intermodal for long-haul shipments, Jacobs said.

"There is something changing in the supply chain patterns, not necessarily from the shippers' side, but from the capacity providers' side. Because of hours of service and lifestyle changes, truckers do not want to do those long hauls anymore," Jacobs said.

To counter the bad rail service, XPO has tried to better communicate with customers and accommodate deliveries by exploring ground and air options, even if it comes at a cost. It also assigned workers to focus on customer service.

While irksome service may have eased for some time-sensitive intermodal shippers, the underlying factors contributing to the difficulties will remain until more capital is invested in rail network improvements in areas such as more-efficient interchanges and added equipment, Stifel analyst John Engstrom said.

As the rail industry consolidated following the Staggers Rail Act in 1980, productivity improved. But those operational gains are no longer enough, Engstrom said.

"The breaking point is non-linear and there can be events that can put performance metrics out of whack," such as last winter, when frigid temperatures snarled the rail network.

While some performance measurements have not improved year over year, service has actually become less volatile despite regional variations, he said.

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A customer may experience a situation where the average shipment time 12 months ago from origin to destination was five days. Six months ago, the customer may have been quoted five days while the actual time was 10 days. Now the customer may expect the time to be 10 days and it is generally in that range, Engstrom said.

Weekly intermodal velocity has remained consistent, running at 4pc below last year's average so far in 2014, while cars on-line are up by 14pc since 2013 and by 12pc since 2012.

"What you are really seeing is that the rail systems are settling into new standards of performance, and service is likely beginning to exhibit less volatility, which gives customers transparency," Engstrom said.

North American crude-by-rail volumes set record

The six largest North American railroads hauled a record 38,775 petroleum carloads in the week ended 13 December amid growing expectations that plunging oil prices and shrinking discounts for onshore crude could prompt a contraction in their business.

The total was 6pc higher than the last record, from the week that ended 10 October, when the six largest Class I railroads reported 36,493 petroleum carloads.

Leading crude-by-rail carrier BNSF reported 12,195 petroleum carloads for the week ended 13 December, just shy of its record 12,208 set in July. Eastern US railroads CSX and Norfolk Southern (NS) did set records, with CSX's 5,633 reported petroleum car loadings marking the first time it has eclipsed the 5,000 mark, and NS almost hit the same milestone at 4,910.

The story was the same between the two major Canadian lines. Canadian Pacific (CP) set a new record with 4,405 petroleum carloads in the latest week, while Canadian National passed 6,000 for just the seventh time this year at 6,014.

Crude prices have fallen nearly 50pc since June, reaching five-year lows and threatening the profitability of many US production projects.

According to *Argus* calculations, Bakken crude delivered to the east coast has held an average premium of 50¢/bl to Brent delivered to the east coast in December to date. But the grade held a discount in November, when many of December's deliveries likely were arranged.

Also, term deliveries might not be affected by fluctuations in commodity pricing. And for some shippers who already have invested in terminal throughput agreements and tank car leases, continuing Bakken rail shipments still might make more economic sense than storing cars and turning to imports.

Oversight of Canadian National in Chicago extended

Oversight of Canadian National's (CN) operations on a shortline it bought in 2008 will last for two more years and may cost the company more money.

The community of Barrington, Illinois, and senator Richard Durbin (D-Illinois) led the charge for the Surface Transportation Board to extend its oversight of CN operations on the former Elgin, Joliet, and Eastern Railway (EJ&E) because of concerns about traffic patterns and the effects on the community. Barrington fought the original board decision to approve the sale of the line to CN and still has a role because of the board's refusal to force the railroad to pay to separate a highway from its rail tracks. Board oversight was originally scheduled to conclude on 23 January 2015.

If the board requires CN to pay to construct a grade separation during the extended oversight, it would dramatically increase the cost of the board's mitigation measures that were included in its approval. The board has rejected multiple calls to adjust its mitigation conditions to require CN to pay for the separation.

Under the current program, the board collects data on EJ&E operations and the effects on Barrington.

The community said train counts on the line remain below what CN forecast in its application to buy the line so it does

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not know the full effects on the community. Noting that, it asked for an extension of STB oversight.

The board agreed, by a 2-1 vote, with commissioner Ann Begeman dissenting.

Begeman said she would consider a more modest extension, but not the two years agreed to by the other two members. Begeman said the board should take a more holistic approach to the issue and look at the entire Chicago gateway and ways in which the network can be improved, instead of relying on criteria established six years ago for one part of the Chicago area. She said the board must do more to address congestion and that data collection alone is not enough.

Under the board's order last week, it will retain oversight authority over the EJ&E route until 23 January 2017.

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