5 Key Numbers from Canada's Crude-by-Rail Boom

Description

This weekend a **CN** (TSX: CNR, NYSE: CNI) train carrying crude oil and liquefied petroleum gas derailed and caught fire west of Edmonton. The accident follows only months after a runaway train carrying crude oil exploded in Lac-Megantic, Quebec, and killed 47 people.

Both events are an unfortunate reminder of the risks that stem from North America's oil revolution and has ignited a debate about the use of rail to transport crude oil. However, you may not know what's going on. Here're five key numbers that tell the story of Canada's crude by rail boom.

1. 6.7 million barrels
According to the Canadian Association of Petroleum Producers, Canadian crude output is forecasted to more than double to 6.7 million bpd by 2030. Much of this growth will come from 'in situ' oil sands projects that use steam to loosen reservoirs of bitumen.

The challenge is moving all of this production to where it's needed. However, the country's existing pipeline infrastructure isn't equipped to handle this surging output. So the industry is investing billions of dollars to accommodate this new supply.

But expansion hasn't been easy. The push for a west coast outlet was set back earlier this year when the British Columbia opposed **Enbridge's** Northern Gateway pipeline proposal on the grounds the the company is ill equipped to handle spills. Efforts to ship crude south through **TransCanada's** Keystone XL pipeline has also been met with resistance from the U.S. State Department.

2. $31.44 per barrel discount
The consequence of these delays is Canadian heavy crude oil, as measured by the Canadian Western Select benchmark, trades at a $31.44 per barrel discount to other North American benchmarks. Multiply that discount by the 1.8 million barrels coming out of the oil sands daily, and you start to understand why the energy industry is desperate to secure new shipping routes.

3. 14,317 rail cars
This has created a boom for shipping crude by rail. According to Statistics Canada, 14,317 rail cars were loaded with fuel oil and crude petroleum products in April versus 5,013 rail cars during the same

month in 2011. Unlike pipelines, much of the infrastructure needed to ship oil by rail is already in place.

4. 300% growth
This dynamic has revitalized the railroad industry. In 2013, Canadian National Railway expects to ship 110,000 bpd. According to estimates provided by Kootenay Capital Management, by 2015 CN's crude shipments could exceed 300,000 bpd and account for 7% to 8% of corporate revenues.

That nation's second largest railway **Canadian Pacific** (TSX: CP, NYSE: CP) is projected to move 70,000 crude carloads in 2013 – up 30% from the previous year. By 2015, CP projects crude carloads to double to 140,000.

5. 3x more dangerous than pipelines
Following the recent string of derailments, the question many Canadians are asking is between rail and pipelines which transit option is safer? According to a study by the Manhattan Institute for Policy Research pipelines remain generally safer than rail for oil transport. Between 2005 and 2009, rail shipments were three times more likely than pipelines to lead to a spill or fire after taking into account the amount of oil being shipped. And according to the study rail shipments also resulted in more injuries and fatalities for every mile traveled.

Following the tragedy in Lac-Megantic, Canadian and U.S. regulators imposed emergency safety rules including new labeling and reporting requirements. However, additional regulations, such as improving the design of tank cars, are expected to be implemented in the near future.

Foolish bottom line
The CN derailment in Gainford, Alberta this weekend was not an isolated incident but the consequence of a much larger trend – North America's energy revolution. But while the industry moves ahead, the political debate over crude by rail has yet to play out. This will be an important discussion not just for investors but all citizens as well.

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Disclosure: Robert Baillieul has no positions in any of the stocks mentioned in this article.
David Gardner owns shares of Canadian National Railway.

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