Rail Energy Transportation Advisory Committee

Rail Fleet Update
April 13, 2015
Agenda

Macro & Freight Environment

Freight Car Deliveries & Build Forecast

Covered Hopper Outlook

Coal

Tank Car Outlook

Regulatory Update
Macro & Freight Environment

- Improved economic outlook and rail traffic expected during 2015, and return to more stable long term growth rates
- Real GDP growth est. ~ 3% for 2015 and slightly below thereafter
- Industrial production to grow 4% in 2015
- Housing starts in 2015 est. at 1.1MM
- Gas prices at historical lows, having positive impact on consumer spending
- Growth in rail traffic expected to continue with new car builds, demand and replacements
- Freight car builders delivered over 67k cars in 2014, with current forecasts at over 90k cars in 2015; ~36% increase

Source: FTR Associates, Oxford Economics
Railcar Demand Drivers

- NA Carloads est. 3.2% growth in 2015 and ~ 2.5% per year beyond
- 2015/16 corn production 13.5 Billion bushels; yields at 171 bushels/acre (USDA)
- Farm products carloads grew over 12% in 2014
- Growth continues in Chemicals, Sand and Ag sectors
- New chemical capacity expected to come online in 2016-17
- Rail traffic remains strong, steady growth for US GDP & IP

Source: FTR Associates
N.A. Railcar Loadings by Car type

Tank Carloadings

Covered Hopper Carloadings

OT Hopper Carloadings

Box Carloadings

Source: FTR Associates
Freight Car Builds

### 2014 Orders
- **Tank Cars, 38,578**
- **Other, 30,660**
- **Small CH, 49,809**
- **Large CH, 7,250**
- **Med CH, 11,937**

### 2014 Deliveries
- **Tank Cars, 35,293**
- **Other, 11,603**
- **Small CH, 13,402**
- **Med CH, 4,481**
- **Large CH, 2,449**

### 4Q’14 Backlog
- **Tank Cars, 57,625**
- **Other, 25,031**
- **Small CH, 39,835**
- **Large CH, 10,490**
- **Med CH, 9,856**

**Other category includes Box, Flat, Gondolas, OT Hoppers, Intermodal**

Source: Railway Supply Institute, ARCI 4Q-2014
Significant growth in total freight car deliveries expected in 2015

Source: Economic Planning Associates, FTR Associates
Covered Hopper Car Builds

2015 Covered Hopper deliveries driven over 50% by Small cube builds

Source: Economic Planning Associates, FTR Associates
Sand & Cement

• Stone, sand & gravel ~ 7% of U.S. rail carloadings

• Est. ~2.5% growth in U.S. sand carloadings due to inc sand use and cement growth

• Housing and construction continues to recover; est. 4% growth in 2015 and higher

• US cement volume is expected to rise to 101.4MM tons by YE 2018 from 87.8MM in 2014

• Cement consumption CAGR ~4.3% during the period 2013–18

Source: FTR Associates, Market line

Source: FTR Associates / Rail Equipment 1Q’15
Coal

• Coal ~ 38% of U.S. carloadings; will continue to be a significant share of total volume

• 2014 Coal production grew 1% in 2014, but expected to decline in 2015-16 (EIA)

• Coal consumption was roughly flat in 2014

• Carload volumes held relatively steady for the first half of Q1-15 but have now dropped below 2014 levels

• 2015 demand expected to decline as natural gas prices remain low and retirements of coal power plants continue

Source: FTR Associates, AAR
Tank Car Builds

Tank Car Delivery Forecast

Tank builds to be driven by CBR, replacements and regulatory changes.

Source: Economic Planning Associates, FTR
Petroleum, Crude Oil & Natural Gas

- Petroleum, crude, & natural gas products make up 4% of North American Car Loadings
- U.S. crude oil production record levels, EIA est. 9.3MM b/d in 2015
- U.S. Petroleum Carloads still expected to grow in 2015
- Canadian oil sands production est. to grow 2.5x, up to 4.8 million b/d by 2030; railcar loadings growth of 7-9% thru 2017
- EIA forecast WTI price ~ $55/bbl in 2015 and $71/bbl in 2016
- Oil price impact on investment, however east-west moves remain core to CBR traffic; further delays in pipeline projects

Source: FTR Associates, EIA, CAPP
Tank Car Regulatory Update

- DOT/PHMSA Proposed Rulemaking (HM-251) filed with OIRA, May 2015 Final Rule release noted on DOT regulatory schedule update
- Transport Canada Consultation efforts continues. Gazette 1 (NPRM) or possibly Gazette II (Final Rule) expected Spring 2015
- Interested trade associations: AAR, RSI, API, AFPM, Growth Energy, RFA, ACC, CAPP
- Holistic approach to safe rail transportation of flammable liquids remains critical.
- Harmonization efforts conducted between US DOT and TC
- Scope of regulations and prioritization of modifications requires clarity, commodity based or train operations under consideration
- Prescribed sets of standards for new and existing tank cars sought, performance standard available as option
- Harmonized modification timeline sought, compliance driven by scope and anticipated modification capacity
- Economic impact of proposals to be reviewed in US and Canada
Small Cube Hopper Car Builds

Small Cube Hopper Delivery Forecast (< 3500 c/f)

Small cube builds still expected significant growth in 2015 due to sand and cement.

Source: Economic Planning Associates, FTR