

**PRESENTED TO:
ARGUS NORTH AMERICAN PETROLEUM
TRANSPORTATION SUMMIT 2015**

RAIL CAPACITY FOR ETHANOL SHIPMENTS

JUNE 2, 2015

**JOHN SCHMITTER
PRESIDENT**

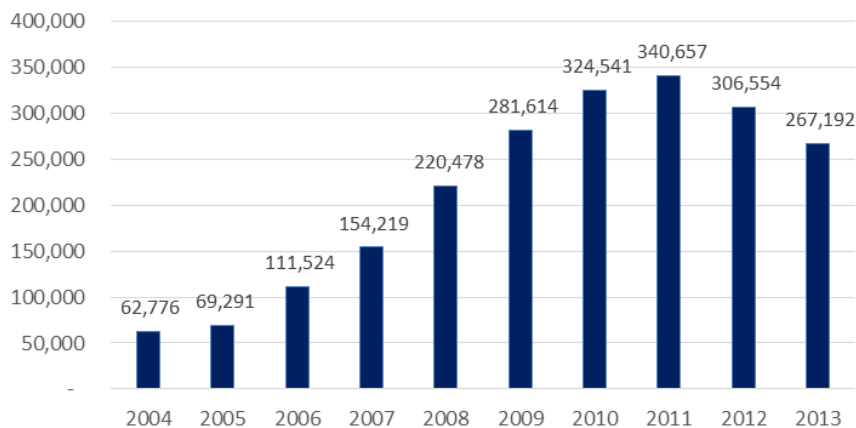
KEP LLC
ECONOMIC AND MANAGEMENT CONSULTING

WILL THERE BE RAIL CAPACITY TO ACCOMMODATE ETHANOL GROWTH?

- Yes
- If you can afford it
- Subject to short term disruptions
- If you manage rail transportation effectively

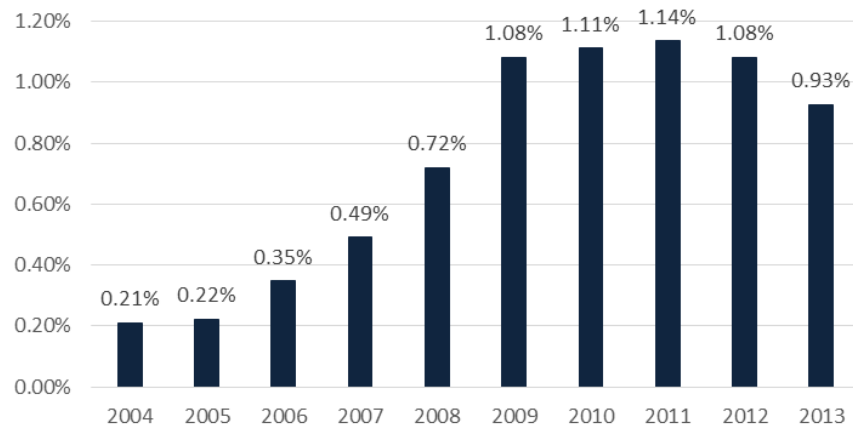
RAIL SHIPMENTS OF ETHANOL HAVE GROWN BUT HAVE DECLINED SINCE 2011

US Rail Carloads of Ethanol



Source: AAR, KEP LLC

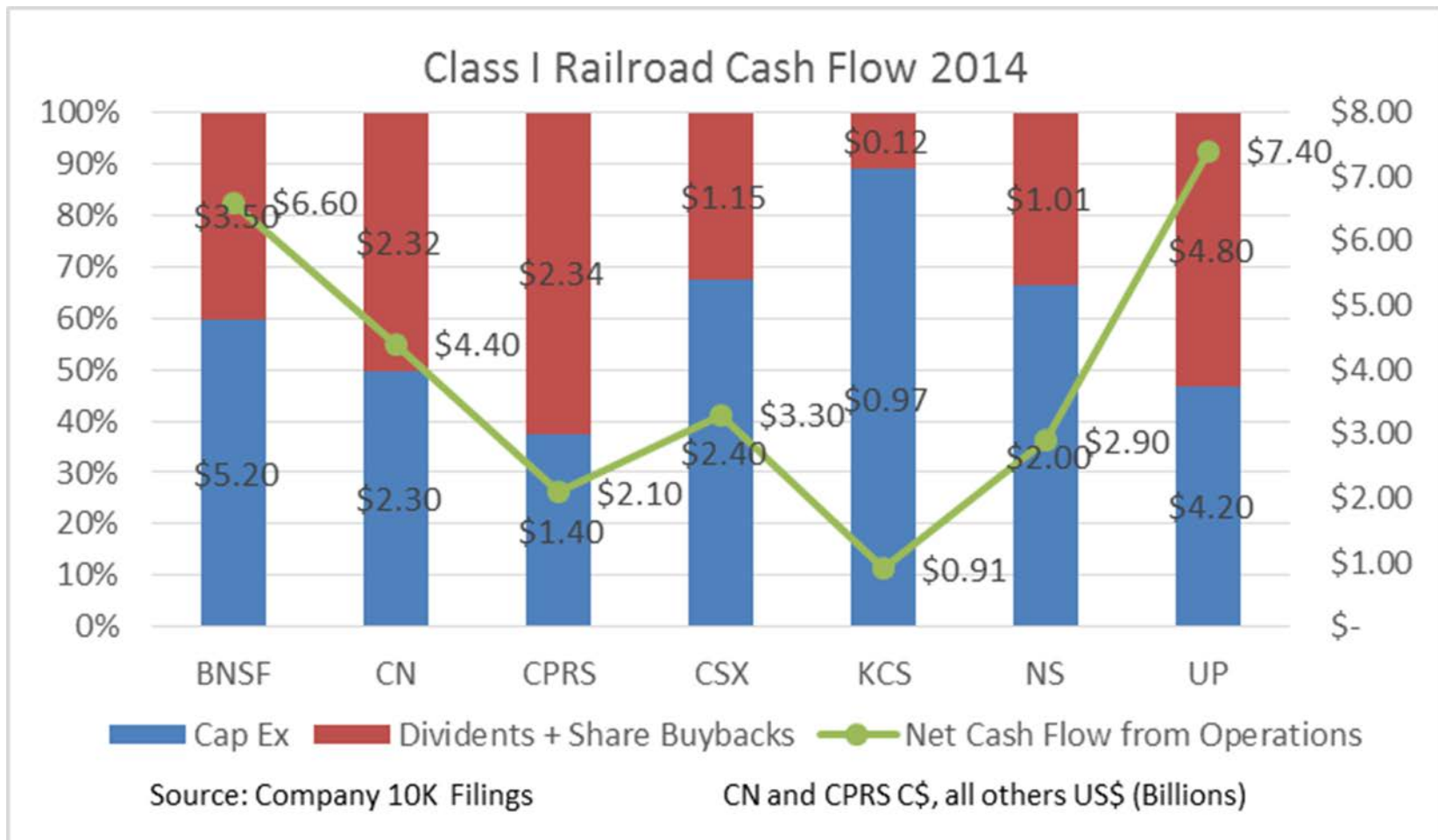
Ethanol as Percent of US Rail Carloads



Source: AAR, KEP LLC

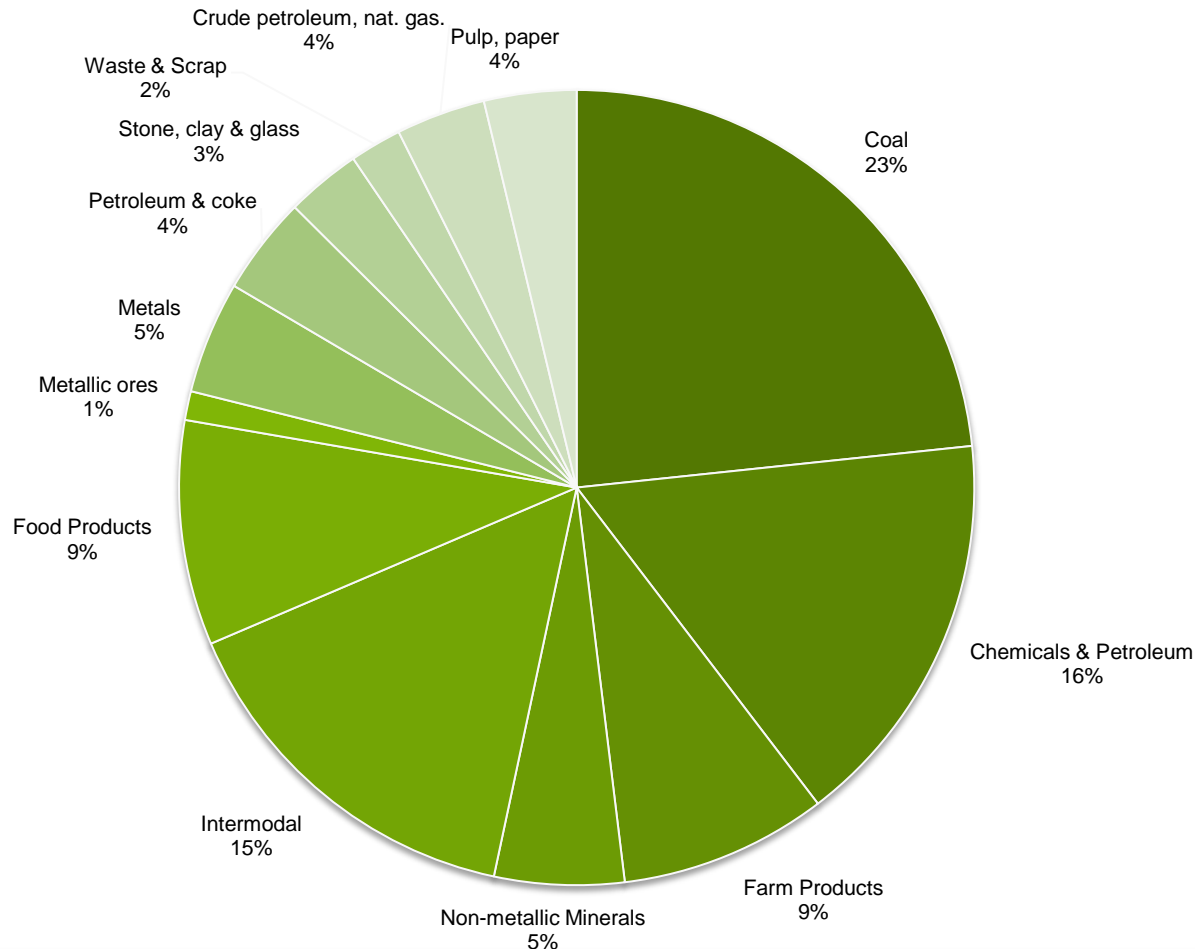
But ethanol continues to be a small part of overall rail traffic

CAN YOU AFFORD IT? THERE IS COMPETITION FOR RAILROAD CASH FLOW FROM INVESTORS



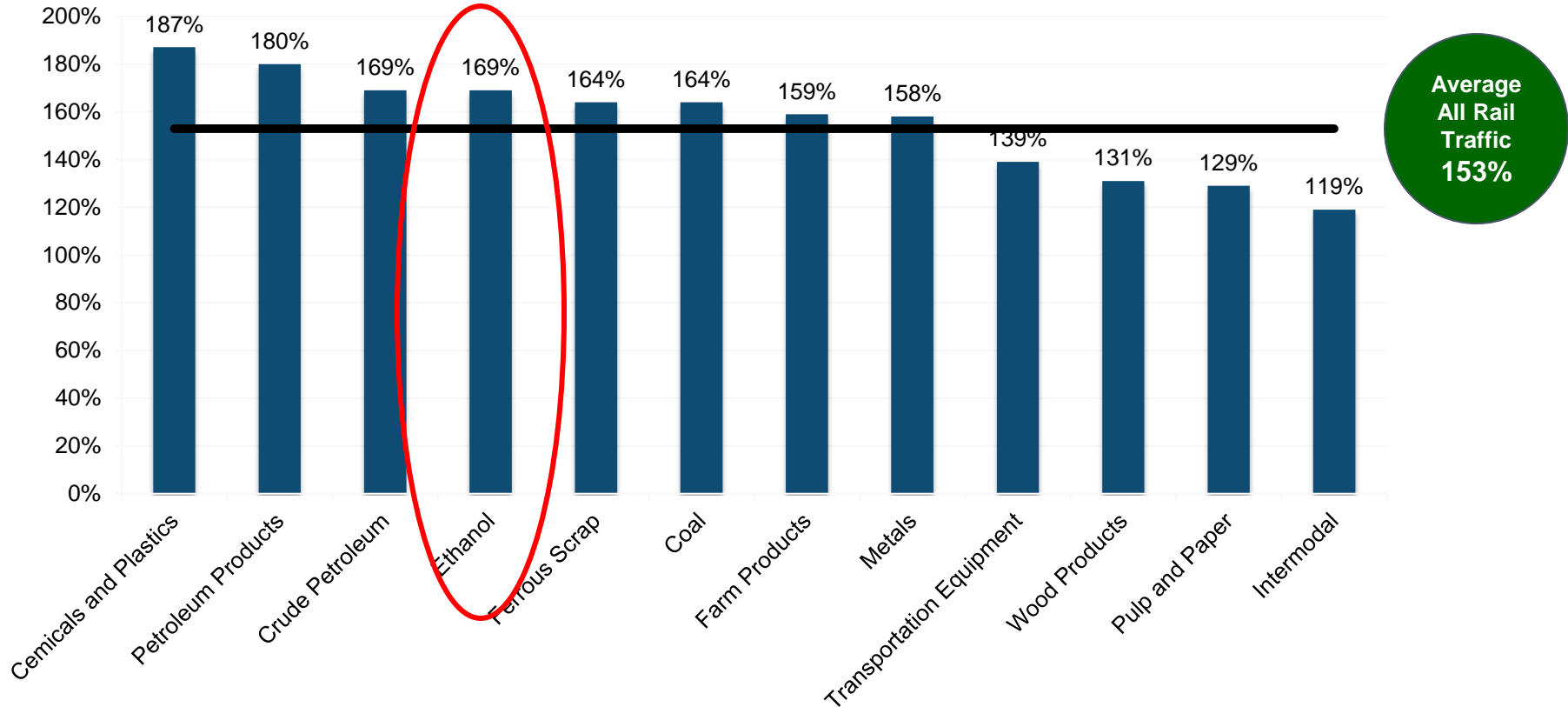
AND THERE IS COMPETITION FOR EXISTING CAPACITY FROM OTHER COMMODITIES

Class I Railroad Revenue Originated 2013



BUT RAILROAD MARGINS ON CRUDE AND ETHANOL ARE ABOVE AVERAGE

Average Revenue/LRVC Ratio 2013

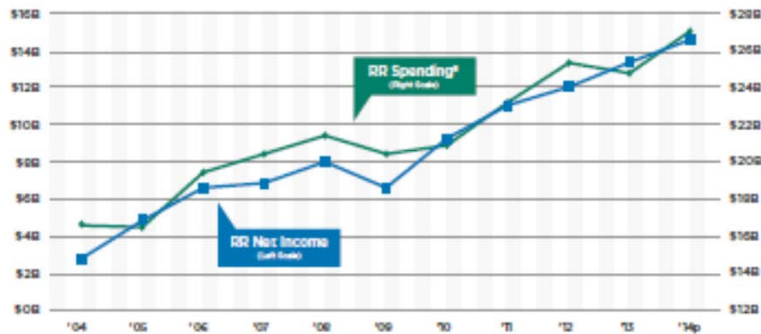


Source: STB, KEP LLC

BUT THERE WILL BE PERIODIC CAPACITY CONSTRAINTS WHEN VOLUME INCREASES QUICKLY

RAILROAD PROFITABILITY ENABLES INCREASED SPENDING

Railroad Net Income Correlates to Railroad Spending on Capital and Maintenance Expenditures



Unlike trucks, barges, and airlines, America's privately owned freight railroads operate almost exclusively on infrastructure they own, build, and maintain themselves. In recent years, freight railroads have been spending more than ever before – including an estimated \$29 billion in 2015 – to meet increased demand for rail service and prepare for future growth. Preserving the industry's profitability through a balanced regulatory structure ensures railroads can spend what they need to keep their networks in top condition.

Notes: *Capital spending plus maintenance expenses
Data are for Class I railroads
p - preliminary

Source: Association of American Railroads



Railroad Employment

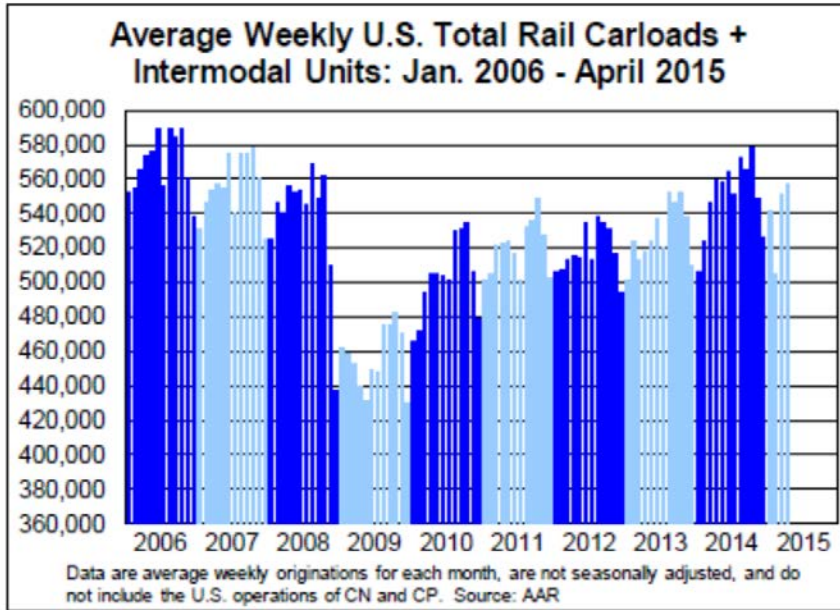


Source: Morgan Stanley Research, STB

Capacity expansion is a “Just In Time” process

It is difficult for railroads to cope with rapid volume increases

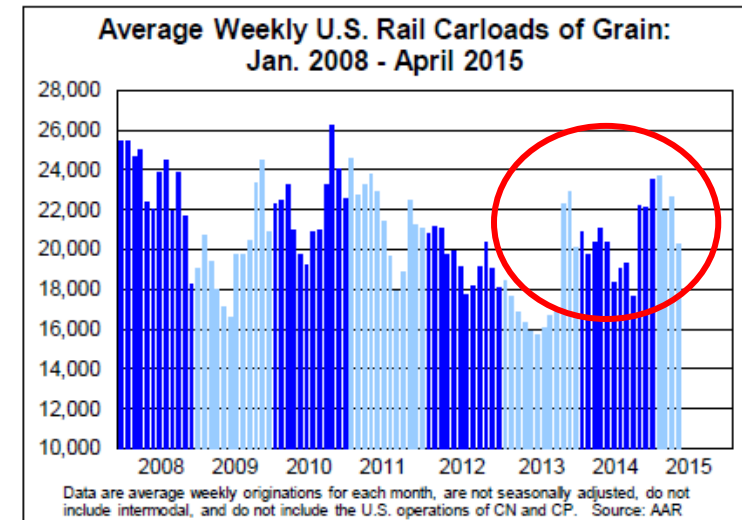
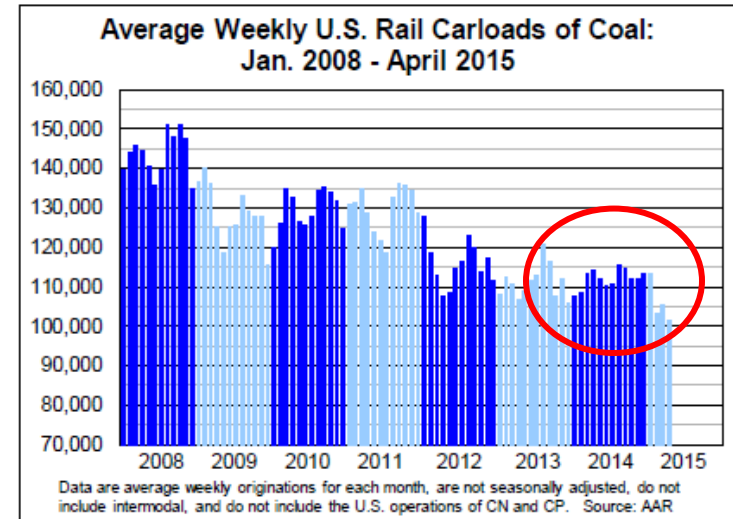
RAIL CONGESTION – 2013/2014



- Unexpected increase in coal shipments
- Record grain harvest
- Continued growth of crude oil, intermodal and other commodities



Capacity shortages in 2013/2014



BNSF, UP, NS, CSXT 2015 CAPEX

Double track & CTC

\$240 million for Positive Train Control.



Smithboro - Second I/C track



New tracks, yard expansions

Network Capacity - System Sidings, CTC
Capital Plan - Next 5 Years



Removing Predicted Constraints

- North / South Corridors
- Southern Region
- Northern Region
- PNW / Sunset / Intermodal
- Other Bottlenecks



EFFECTIVE RAIL TRANSPORTATION MANAGEMENT MATTERS

- Unit train operations will generally have preference
- Track and manage shipments and measure performance
- Find ways to improve efficiency at plants and customer facilities
- Provide accurate and timely forecasts
- Communicate at all levels, operating as well as commercial
- Consider upgrading the railcar fleet ahead of the retrofit deadlines

Companies that manage the rail relationships get the best results

SUMMARY

- Railroads do have the capacity to handle ethanol and will in the future
- Ethanol provides good margins for the railroads so the industry can afford the capacity and should have priority
- Rapid increases in volume can create temporary congestion issues – be prepared...
- By effectively managing rail transportation and the relationships with your rail carriers