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Crude oil will continue rolling by train

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Trains loaded with crude oil roll through South Texas on a daily basis, ferrying the cargo to coastal refineries.

And despite the recent [train derailment disaster in Quebec](#), which killed dozens as its crude oil cars ignited in the town of Lac-Mégantic, the crude-by-rail trend likely won't stop.

Skip York, principal analyst in oils research at Wood Mackenzie in Houston, said the lack of available pipeline to move crude out of new oil fields means that the product must move by rail instead.

"As long as I have more volume than pipeline capacity, I'm going to have to put it on a train and get it out," York said. "We don't see a dramatic abandonment of the rail option. It's difficult to see how you could completely abandon the rail option at this point and going forward."

What's at stake, York said, is how regulators in the U.S. and Canada will react to the Quebec disaster.

"We know how [a derailment gets investigated](#). Is this the same process?" York asked. "Or do we say crude by rail has grown so dramatically that we're in new territory? Do we have the right framework and procedures?"

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So far, York hasn't heard of a regulator or policy analyst calling for a ban on crude by rail. But he said he expects increased safety regulations and a look at best practices.

"It's a hazardous material, and it's explosive," he said. "It's hard to imagine that the new procedures would come for free. You could imagine freight rates going up."

In Texas, trains and barges carried 401,700 barrels of crude and petroleum liquids daily last year, up from 362,732 barrels per day in 2011, according to the Texas Railroad Commission. The agency does not break down the data by field or region, but estimates that 90 to 95 percent of that is rail transportation.

Thomas Tunstall, a research director with the University of Texas at San Antonio, said that Texas has more pipelines than other parts of the country, and therefore more hydrocarbons moving by pipeline.

But [eyes in the Eagle Ford shale region](#) in South Texas, new pipeline construction was slow to take off, giving crude by rail a chance to grow. Railroads in and near the oil field have boomed in response, and are moving everything from crude oil to sand for hydraulic fracturing.

"That pipeline construction is one of the activities underway in earnest now," Tunstall said. "It's a matter of the pipeline companies satisfying themselves that there's a long-term need for it. I think the pipeline companies didn't quite believe that the Eagle Ford was the real deal at first."

Ultimately, Tunstall thinks that more pipelines will be built thanks to cost savings. The general rule of thumb is that it costs \$20 per barrel to move crude oil by truck, \$10 by rail and \$5 by pipeline, although the cost varies by geography.

"I know people are not in favor of pipelines," Tunstall said. "I've got to believe it's riskier to send it by rail than by pipeline."

The Energy Information Administration, using data from the Association of American Railroads, calculates that 1.37 million barrels per day of oil and petroleum products were shipped on railways in the first half of 2013.

That's up from about 927,000 barrels daily in the same period of 2012.

Those numbers include all petroleum products, but the agency estimates that about 700,000 of the daily petroleum-related barrels moved this year were crude oil.

San Antonio-based Tesoro Corp. plans to build a complex to deliver crude oil by rail to the Port of Vancouver in Washington.

Valero Energy Corp. also is looking at using rail to move crude from the Bakken Shale east to its Quebec refinery.

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North Dakota's Bakken has been the primary spot in the U.S. for moving crude by rail, thanks to that region's lack of pipeline infrastructure.

"If you're sitting in the Bakken, you don't have an alternative. There's no pipeline to the east or west," York said. Building a new one isn't realistic because it would have to cross mountain chains or go through densely populated areas.

And York said that companies like the flexibility of moving crude by rail. If there's a price advantage to selling on the East, West or Gulf coasts, operators can simply ship their crude in that direction. Pipelines, however, are locked in.

"You need a critical mass before a pipeline makes sense," he said.

Express-News and Houston Chronicle archives were used in this report.

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