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(By Aberdeen Asset Management)



Business | Fri Jun 8, 2012 2:12pm EDT

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Shale vs. rail: Phillips 66 to buy 2,000 rail cars to transport oil

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Phillips 66 (PSX.N) plans to buy as many as 2,000 railroad tank cars to ship oil from shale fields to refineries, yet another sign that the shale boom is reshaping the U.S. energy industry.

Phillips Chairman and CEO Greg Garland discussed the plan, targeted for "the next year or two," at the Citi Global Energy Conference this week, according to a transcript of his presentation.

Oil companies in fast-growing U.S. shale fields such as the Bakken, Eagle Ford, Niobrara and Permian have turned to rail, trucks and barges to haul crude because pipeline development has not kept up.

"We're going to add rail capacity," Garland said. "We're considering buying a couple thousand more railcars so we can get Bakken crude either east and west."

Phillips 66, the newly spun-off downstream arm of ConocoPhillips (COP.N), has refineries on the East, West and Gulf Coasts, and Garland said the company currently refines about 100,000 barrels per day of shale oil but could handle 500,000 bpd.

The initial goal is to increase delivery of shale crudes to Phillips refineries by 100,000 to 150,000 bpd within two years using railroad unit trains, he said.

"That's a pipeline on wheels. So, that could go to the Bakken. It could go to the Niobrara. It can shift as the opportunity shifts around the country," he said.

Techniques including hydraulic fracturing, or fracking, have given drillers access to vast new deposits of so-called unconventional oil in shale rock formations, helping to reverse a decades-old decline in U.S. crude output.

Many analysts say rail will be a bigger part of the oil delivery picture for years because shale wells - often scattered, small and of uncertain lifespan - won't justify pipeline construction.

"We think the E&P (exploration and production) side will develop faster than infrastructure to take it away over the next five to 10 years, so we think that will be a good investment," Garland said. "It's a really quick payback on that."

Garland said the typical unit train would be 100 cars carrying 32,000 gallons (750 barrels) of crude. Using those estimates, 2,000 tankcars would equal about 150,000 barrels.

(Reporting By Bruce Nichols; Additional reporting by Erwin Seba; Editing by Marguerita Choy)

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