The Canadian Association of Railway Suppliers / Association Canadienne des Fournisseurs de Chemins de Fer

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(via email:TDGRegulatoryProposal-TMDPropositionReglementaire@tc.gc.ca)

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SUBJECT: CONSULTATIONS ON PROPOSED AMENDMENTS TO THE TRANSPORTATION OF DANGEROUS GOODS REGULATION

On behalf of member companies, the Canadian Association of Railway Suppliers has reviewed Transport Canada's proposed amendments to the Transportation of Dangerous Goods Regulations and we have the following comments:

Retrofit Timelines

Commodity	Transport Canada	US DOT
Crude Oil/Ethanol	May 1, 2017	
Class 3, PG I	May 1, 2020	October 1, 2017
Class 3, PG II	May 1, 2022	October 1, 2018
Class 3, PG III	May 1, 2025	October 1, 2020

Note: U.S. retrofit timelines pertain to high hazard flammable trains (HHFT).

The necessary annual tank car retrofit volumes to meet the retrofit deadlines, in combination with extensive scopes of work and advance engineering needs, is unprecedented in the tank car repair industry. The largest retrofit program the industry has completed was jacketing of flammable gas pressure cars about thirty years ago. The current proposed retrofit program is more than four times larger by car volume.

Focusing in on the first Transport Canada deadline, there are thousands of tank cars in operation in Canada in crude oil service, subject to retrofit or phase out by May 1, 2017. Many newer cars are likely to be retrofitted. However, retrofits will be very expensive (an estimated at $50K per car before cleaning, freight charges and out-of-service time costs), and there may be prohibiting car design issues as well. Therefore, the shipper community will face substantial 'forced' car retirements by May 1, 2017.

The aggressive timelines will result in higher shop turnaround times, reducing fleet utilization and productivity, and there will be car shortages. All shippers with tank cars – flammable services, other dangerous goods and even non-regulated services - will be affected to some degree, particularly since current North American fleet utilization is at a record high of 99%.

Tight Repair Capacity

There is tight repair capacity across the industry, in both Canada and then United States, due to rapid growth in tank car qualifications which are a mandated inspection requirement. (Qualification requirements include internal and external visual inspections, structural integrity inspections, and thickness tests.) Retrofit requirements would represent substantial incremental demand. Additionally, a critical prerequisite for both tank car qualifications and retrofits is tank cleaning capacity.

The industry has already employed various strategies and tactics to increase repair capacity. Retrofit requirements remain uncertain, and there are lead time considerations to further expand capacity. Major related issues include sufficient tank cleaning capacity, skilled labour shortages, required plant and equipment for tank jacketing, and material procurement (e.g. tank head shields). Additionally, railway freight charges are an impediment to West-East movement of tank cars to access shop capacity. Moving the cars under mileage equalization in Canada would be beneficial.

Tank car facilities in Canada must be certified or registered with the Association of American Railroads, and registered with Transport Canada. There are certain limited classes of facilities that can perform tank qualification and/or conversion work.

U.S. repair capacity is unlikely to be a solution for Canadian shippers. U.S. capacity is also tight already, with high expected retrofit demand, and similar expansion issues.

Ramp-up times are required to add new capacity at existing facilities and the lead time to build greenfield facilities would be at least 18 months (probably longer). This is very significant given we have only 32 months until the retrofit deadline for crude and ethanol cars. CARS has provided Transport Canada meeting attendees with a list of the tank car facilities in Canada. Even if companies ramp up facilities, the retrofit program work is viewed as a temporary spike in demand and will not be sustainable for significant capital investment.

The Canadian Association of Railway Suppliers is recommending retrofit prioritization of non-jacket cars, followed by the cars already equipped with jackets. We are also proposing a new tank car classification to identify retrofitted DOT 111 cars.

New Car Manufacturing Backlogs

Industry production backlogs for tank cars totaled approximately 53,000 units at the Q2 2014, representing about 18 months of production. The aggressive retrofit timelines will stimulate new demand, resulting in longer backlogs. All shippers with new tank car needs, regardless of commodity or car type, will be affected by the longer lead times, and the limited time frame proposed by Transport Canada doesn't allow enough time for new car production to supply potential demand.

Harmonization

Transport Canada has indicated that it is very unlikely that the retrofit timelines will be harmonized with the US DOT. Clearly, the lack of timeline harmonization presents the risk of significant cross-border shipment disruptions and substantial economic losses associated with constrained exports, over an extended period. Furthermore, specification harmonization, and a unified approach to car classification (e.g. presently Transport Canada has a new TC 140 specification and the U.S. has the new DOT 117) is necessary in our North American rail car interchange environment.

ECP Braking

Car builders will be looking at a cost of approximately $5000.00/car for new construction overlay, $6000.00/car for retrofit overlay and $4000.00/car for new constructions. This does not include training requirements. There are two designs for ECP systems: 1) standalone, which means cars equipped with these can only be operated in a fully ECP equipped trains and 2) an overlay ECP, which allows for dual mode operations. The overlay ECP is more expensive. Under the proposed regulation, a car owner can choose which system they want. If they choose the standalone, it can restrict and complicate the railways operations due to compatibility issues. This could result in additional handling and or delays.

ECP brakes can only be used in a train where all cars and locomotives are equipped with ECP brakes. If shippers decide to acquire cars with standalone ECP brakes, then they will not be able to function in a non ECP train.

A Comprehensive Regulatory Approach Is the Quickest/Most Meaningful Way to Improve Safety

In addition to tank car design, other elements of transporting flammable liquids by rail should be addressed. There is no viable tank car standard that could withstand the forces present in a derailment such as the one in Lac-Megantic. The quickest and most meaningful way to improve crude-by-rail safety is to approve new regulations regarding railroad operating procedures and develop new regulations for the classification and testing of flammable liquids.

In closing, industry has the ability to respond to change, but timelines need to be realistic and Transport Canada/US DOT harmonization is critical for unimpeded car supply and movement. The current proposed deadlines and lack of harmonization with the United States will severely restrict Alberta's ability to export crude oil, and significantly disrupt supply chains for all other provinces relying on rail. Overall, Canada's economy will be harmed by the Transport Canada proposal.

Please do not hesitate to contact me if you have any questions.

Best regards,

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