

Increased Ethanol Demand Heats Up Tank Car Use

By Esther D'Amico

As gasoline producers transition to ethanol as a fuel additive from methyl tert-butyl ether (MTBE), demand has climbed in the already stretched rail and trucking markets for ethanol tank cars and trailers, carriers say. Capacity for this equipment has been tight for several years and added to shipper freight costs, and the recent demand surge has exacerbated the difficulties, carriers say. "We've already seen a substantial increase in costs for all types of cars, driven by increased demand and the cost of steel," says Ken O'Neill, asset manager at GE Equipment Services' Rail Services (Chicago).

Ethanol cannot be transported by pipeline. Transport regulations classify the chemical as a flammable liquid, and so it must be carried in the same type of tank cars and trailers that are used to transport diesel fuel, gasoline, and methanol. Demand for this equipment has risen this year as oil companies began the switch to ethanol from MTBE.

O'Neill estimates that 35%–40% of the 11,934 tank cars being built in North America are earmarked for ethanol and related products. He did not provide comparative figures but says that, based on internal estimates at GE, the percentage of ethanol-type cars has risen. Rail tank car supply and demand is expected to become more balanced by 2008, when more cars come to market, he adds.

Meanwhile, Congress is concerned about the trucking sector's ability to deliver gasoline to service stations, given the greater volumes of ethanol that will be competing for tank space. The National Tank Truck Carriers (NTTC; Alexandria, VA), testifying before a House energy committee hearing earlier this month, said "the short answer is that it has presented additional distribution challenges." However, the tank truck industry has "the capacity and management skills to meet those challenges," says John Conley, NTTC president, who testified before the hearing. Increased demand for hauling ethanol, "at a time when our trucks are operating at capacity," has exacerbated the situation, Conley says. Trucks pick up ethanol directly from suppliers or they transload the product from rail cars or barges. "We are able to load much faster from barges, contrary to those instances we have found where our drivers sometimes have to wait in long lines to transfer from rail cars," he says. "I am sure we will be able to work with our rail partners to devise quicker ethanol transfer procedures."

The trucking sector's main challenge is ethanol's short supply, which compels carriers' customers "to start chasing supply and prices," and sometimes forces drivers to go out of route last minute, adding both mileage and time to delivery, says Tom Lynch, NTTC v.p. and general counsel. It can be more complicated to move ethanol than gasoline,

which is transported by pipeline to a central location where trucks haul it to service stations, Lynch says. "Ethanol gets delivered by barge and rail to locations that are not centrally located, like a rail yard or a port," and the driver can be told to make quick and last-minute changes enroute, he says.

Storage is another issue. Most ethanol storage facilities are still under construction, says Charles Ring, sales and "lean thinking" manager at Ventura Transfer (Long Beach, CA), a transloading and distribution management firm that recently won a contract to manage ethanol transfer for fuel blending in the Dallas/Fort Worth area. "Ideally, an ethanol production facility that is served by rail would be able to transfer a rail car of ethanol into a dedicated, on-site storage facility," Ring says. Such facilities take 18–30 months to complete, which is too long given that some gasoline refiners are already phasing out MTBE and transitioning to ethanol, Ring says. Some oil companies will only sell gas blended with ethanol in the Dallas/Fort Worth region—a poor air quality area—because they do not want to be left exposed to potential liability lawsuits over carbon groundwater contamination caused by MTBE, he adds.