

# California Finally to Reap Fracking's Riches

## Crude-by-Rail from Bakken Shale Is Poised to Reverse State Refiners' Rising Imports

By Alison Sider and Cassandra Sweet, Oct. 7, 2014 12:51 p.m. ET



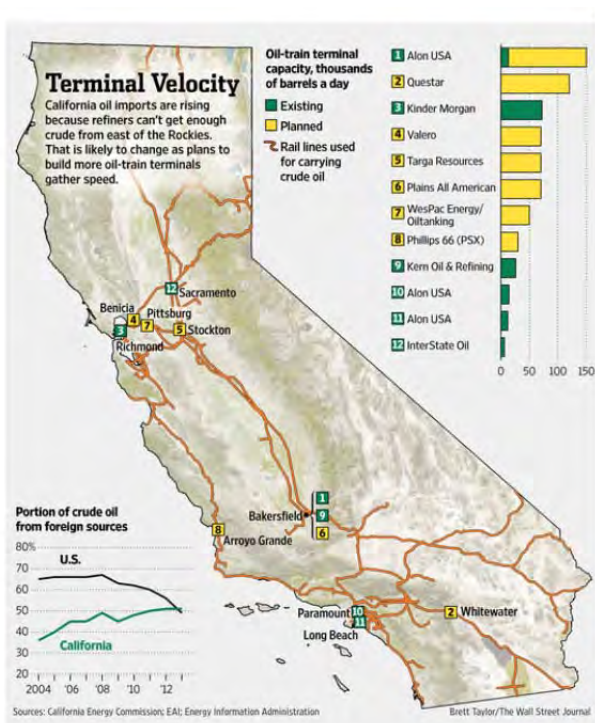
Tanker cars line up in Bakersfield, Calif., where Alon USA Energy recently received permission to build the state's biggest oil-train terminal. *The Bakersfield Californian/Associated Press*

For the past decade, the U.S. shale boom has mostly passed by California, forcing oil refiners in the state to import expensive crude.

Now that's changing as energy companies overcome opposition to forge ahead with rail depots that will get oil from North Dakota's Bakken Shale.

Thanks in large measure to hydraulic fracturing, the U.S. has reduced oil imports from countries such as Iraq and Russia by 30% over the last decade. Yet in California, imports have shot up by a third to account for more than half the state's oil supply.

"California refineries arguably have the most expensive crude slate in North America," says David Hackett, president of energy consulting firm Stillwater Associates.



Part of the problem is that no major oil pipelines run across the Rocky Mountains connecting the state to fracking wells in the rest of the country. And building pipelines is a lengthy, expensive process.

Railroads are transporting a rising tide of low-price shale oil from North Dakota and elsewhere to the East and Gulf coasts, helping to keep a lid on prices for gasoline and other refined products.

Yet while California has enough track to carry in crude, the state doesn't have enough terminals to unload the oil from tanker cars and transfer it to refineries on site or by pipeline or truck.

Just 500,000 barrels of oil a month, or 1% of California's supply, moves by rail to the state today. New oil-train terminals by 2016 could draw that much in a day, if company proposals are successful.

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Bakken oil since April has been about \$15 a barrel cheaper than crude from Alaska and abroad, according to commodities-pricing service Platts. That would cover the \$12 a barrel that it costs to ship North Dakota crude to California by rail, according to research firm Argus.

The state's lengthy permitting process has contributed to the shortage of oil-train terminals. Some California lawmakers also want to impose fees on oil trains to pay for firefighting equipment and training to deal with derailments and explosions. And community and environmental activists have been waging war on oil trains. The dangers of carrying hazardous materials by rail were underscored Tuesday when a train carrying petroleum [derailed in Canada](#).

But energy companies recently won two hard-fought victories that will pave the way for California to get more crude by rail.

Kern County officials last month gave [Alon USA Energy Inc.](#) [ALJ +3.63%](#) [Alon USA Energy Inc.](#) U.S.: NYSE \$**14.57 +0.51 +3.63%** Oct. 8, 2014 4:00 pm Volume (Delayed 15m) : 966,462 AFTER HOURS \$**14.57 0.00 %** Oct. 8, 2014 4:46 pm Volume (Delayed 15m) : 421 P/E Ratio N/A Market Cap \$975.34 Million Dividend Yield 2.75% Rev. per Employee \$2,607,560 15.0014.5014.0013.5010a11a12p1p2p3p4p 10/07/14 [California Finally to Reap Fra... More quote details and news](#) » permission to build the state's biggest oil-train terminal. That project, which the company hopes to finish next year, is designed to receive 150,000 barrels of oil a day in Bakersfield, Calif., 110 miles north of Los Angeles.

The site was home to an asphalt refinery until 2012 when Alon shut it down because it struggled to turn a profit. Alon plans to reconfigure and restart the plant, but much of the oil transported there by train will move by pipeline to other companies' refineries in California.

[Plains All American Pipeline PAA +0.23%](#) [Plains All American Pipeline L.P.](#) U.S.: NYSE \$**57.05 +0.13 +0.23%** Oct. 8, 2014 4:01 pm Volume (Delayed 15m) : 933,180 AFTER HOURS \$**57.05 0.00 %** Oct. 8, 2014 6:39 pm Volume (Delayed 15m) : 18,118 P/E Ratio 26.41 Market Cap \$21.03 Billion Dividend Yield 4.63% Rev. per Employee \$9,053,880 5857565510a11a12p1p2p3p4p5p6p 10/07/14 [California Finally to Reap Fra... 10/04/14 Bonds: What to Do Now 08/06/14 Plains All American Profit Fal... More quote details and news](#) » LP says it plans to open a 70,000-barrel-a-day oil-train terminal in Bakersfield this month.

And in northern California, a judge last month dismissed a lawsuit brought by environmental groups that challenged [Kinder Morgan Inc.](#) [KMI +0.03%](#) [Kinder Morgan Inc.](#) U.S.: NYSE \$**38.26 +0.01 +0.03%** Oct. 8, 2014 4:00 pm Volume (Delayed 15m) : 11.85M AFTER HOURS \$**38.31 +0.05 +0.13%** Oct. 8, 2014

7:57 pm Volume (Delayed 15m) : 1.43M P/E Ratio 33.28 Market Cap \$39.33 Billion Dividend Yield 4.50% Rev. per Employee \$1,417,070 38.5038.0037.5037.0010a12p2p4p6p8p 10/07/14 [California Finally to Reap Fra...](#) 09/26/14 [Goldman Puts New Limits on Som...](#) 09/22/14 [Canadian Pipeline Operator to ...](#) [More quote details and news »](#) 's rail permits. The company is now receiving oil trains at a Richmond, Calif., terminal near San Francisco that was built to handle ethanol.

Opposition over safety has drawn out the permitting process in some cases, making some companies rethink their strategies. [Valero Energy Corp.](#) [VLO +3.79%](#) [Valero Energy Corp.](#) U.S.: NYSE \$46.84 +1.71 +3.79% Oct. 8, 2014 4:01 pm Volume (Delayed 15m) : 9.38M AFTER HOURS \$47.20 +0.36 +0.77% Oct. 8, 2014 7:56 pm Volume (Delayed 15m) : 71,947 P/E Ratio 8.32 Market Cap \$23.83 Billion Dividend Yield 2.35% Rev. per Employee \$13,904,600 48464410a12p2p4p6p8p [More quote details and news »](#) in March canceled plans to build an oil-train terminal near its Los Angeles refinery. But Valero still hopes to add a terminal to the company's Benicia, Calif., plant, 35 miles northeast of San Francisco.

"Every day that goes by that we're not able to bring in lower cost North American oil, is another day that the Benicia refinery suffers competitively," says spokesman Bill Day. The state last month asked Benicia for another safety review to better forecast the potential for derailments and other accidents.

Several oil-train explosions in the last 15 months—including last year's blast in Lac-Mégantic, Quebec, that killed 47 people—have struck fear in many residents along rail corridors.

"These railcars are not safe at any speed," says Andrés Soto, a musician from Benicia who has helped organize campaigns against several oil-train projects. "We don't see that there's any way that they can actually make these projects fail-safe."

Environmental-impact challenges have been one means that groups have used to delay oil trains.

Pittsburg, Calif., officials say WesPac Midstream LLC's proposed oil-train terminal is on hold after the state attorney general asked for an expanded environmental review. The company is gathering answers for regulators and hopes to gain approval and start accepting oil trains at the site by late 2016, 40 miles east of San Francisco, a WesPac spokesman says.

Even if oil trains are kept off California tracks, more fracked crude still could flow to California. A 360,000-barrel-a-day oil-train terminal in Vancouver, Wash., aims to transfer North Dakota crude from tanker cars to barges that will sail the Columbia River about 100 miles northwest to the Pacific Ocean. From there, it is a quick trip down the coast to California ports.

That project also has faced stiff headwinds. Refiner [Tesoro Corp.](#) [TSO +4.13%](#) [Tesoro Corp.](#) U.S.: NYSE \$64.60 +2.56 +4.13% Oct. 8, 2014 4:01 pm Volume (Delayed 15m) : 3.86M AFTER HOURS \$64.60 0.00 % Oct. 8, 2014 6:39 pm Volume (Delayed 15m) : 32,849 P/E Ratio 21.46 Market Cap \$7.96 Billion Dividend Yield 1.86% Rev. per Employee \$6,059,140 6664626010a11a12p1p2p3p4p5p6p 10/07/14 [California Finally to Reap Fra...](#) 09/22/14 [Chevron Corp. Says Considering...](#) 08/15/14 [CFO Moves: Tesero, WellCare, N...](#) [More quote details and news »](#) and transportation provider Savage Cos. were forced to postpone the start for the Vancouver terminal because of approval delays. While the governor hasn't approved the project, the companies say they expect to be up and running next year.

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