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September 11, 2014

The Honorable Daniel R. Elliott, III
Chairman
Surface Transportation Board
395 E Street, SW
Washington, DC 20423
U.S.A.

Re: Railroad Service Outlook – Fall 2014

Dear Mr. Chairman:

Thank you for your August 19, 2014 letter requesting information about CN's assessment of our ability to meet expected rail service demands during the "fall peak" period.

I am pleased to report that CN recovered well following the difficult winter of 2013/2014 in Canada and the United States. We moved all-time record volumes earlier this year, dealing with the backlog of traffic from the winter, and we continue to meet the growth opportunities across our customer base. Overall, CN continues to focus on supply chains, which is strengthening the integration of our planning with that of our customers and our supply chain partners.

While I am confident that CN can meet our customers' needs and the growth that we are projecting, it is important to note that we are not in a position to offer limitless capacity to address issues outside of our network. For example, we experienced significant traffic diversions in recent months to Canadian seaports and onto CN as a result of the ILWU labor issues at U.S. seaports; the Mississippi River – which our network parallels – is facing its own infrastructure challenges as it deals with strong freight levels, which may spill over onto the rail network; and projections of strong corn and soybean crops in the U.S. this year may lead to rail industry capacity bottlenecks. We have plans in place to deal with our business for the remainder of this year, but cannot reasonably be expected to accommodate all other supply chain disruptions that may occur.

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Expected Traffic Demands

Demand across all sectors across North America is solid, with strong intermodal performance – including a lot of pre-shipping over the past few months due to the West Coast labour issues, an excellent U.S. grain crop, strong demand for metals, frac sand, lumber, and finished automobiles, and continued growth in crude shipments. In CN's Southern Region, gross ton-miles are up 8.8 percent year over year, with continued strong demand expected through the remainder of the year.

CN has been particularly focused this year on transporting the record Canadian grain crop. Notwithstanding the Canadian government's mandated weekly grain transportation movements that were put into place earlier this year, our Canadian grain movements have not affected CN's ability to handle our traffic in the United States. We expect to be able to handle what is anticipated to be a very strong U.S. grain crop along with our other traffic.

Equipment Availability and Train Speeds

CN has taken a number of steps to ensure adequate equipment availability to meet customers' needs. CN has added centerbeam cars to move lumber and panels, covered hopper cars to move grain products, multilevel cars to move finished vehicles, boxcars to move forest products, and gondola cars to move steel and scrap to our fleet systemwide for the 2014/2015 season. We also have ordered additional covered hopper cars to move grain products, which will be available in Q2 2015, as well as additional boxcars to be built in Q2 2015.

With respect to locomotives, we will have 140 additional locomotives in our active locomotive fleet at the end of this year versus the end of Q4 2013. This includes the 60 new AC locomotives that will be delivered to CN starting this month. We have also undertaken an extensive overall program over the summer months to ensure our fleet is ready for the peak and winter season.

While we are pleased overall with our train speed and operating performance and work hard to increase our velocity, it is important to note that in August 2013, the freight railroads self-imposed a 50mph speed limit for trains carrying 20 or more carloads of crude oil, and CN has been adhering to that limit in both our U.S. and Canadian operations. In addition, as of July 1, 2014, trains carrying at least 20 cars of crude oil where at least one of the cars is an older DOT-111 tank car travel no faster than 40mph when traveling within one of the 46 High Threat Urban Areas in the U.S., as designated by the U.S. Department of Homeland Security.

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CN fully supports reduced train speeds when safe operations dictate, but we caution against government imposition of more drastic speed reductions or expanded speed restrictions that could significantly hamper the fluidity and overall capacity of the rail network.

Challenges in Meeting Customer Service Expectations

We continue to focus on balancing operational and service excellence. For the past several years, CN has had an aggressive program of workforce renewal to ensure that we will be able to meet customer demands and to continue to drive our safety culture. Over the course of 2014, CN has hired 636 employees in the U.S., and we expect to hire an additional 162 individuals by the end of the year. Almost 64 percent of the newly-hired employees and those to be hired by year-end will be directly involved in train operations.

In addition, CN officially opened on September 9 our employee training centre in Winnipeg, which hosts more than 350 CN students from across Canada each week, with hands-on training for all key railway jobs. We will be formally opening our centralized training facility for U.S. employees in October, which will host roughly 250 employees each week. This training centre is located adjacent to CN's Woodcrest Mechanical Shop in the Chicago suburb of Homewood, Illinois. Together these two training facilities represent a $55M investment for our workforce training.

At the same time, heading into fall we have been facing certain challenges, particularly with respect to service on some of our lines in Wisconsin, due to a combination of an unanticipated surge in business, crew and equipment shortages, as well as other short term capacity constraints. We are working hard with certain concerned customers and, where necessary, with our connecting carrier partners, to restore service to needed levels. We also are working with agencies in Wisconsin to secure permits so that we may construct infrastructure that will support traffic growth and improve network fluidity.

The most pressing issue in Wisconsin has been train crew availability. Notwithstanding our high level of hiring in the U.S., we faced an unexpected number of retirements of many of our most experienced Wisconsin-based crew. We will continue our high level of hiring with an added focus on Wisconsin through the remainder of 2014 and use other personnel to supplement where we can.

In fact, we currently have 49 people training in Wisconsin for the Stevens Point/Fond du Lac area and 37 more for the Superior/Duluth area who should be qualified before year-end; while qualifying those new employees, we have 14 employees from other locations on our U.S. network who are working in Wisconsin. We have an additional 45 new employees in training who will become qualified in 2015. As a means of strengthening the training experience for our new hires in the Wisconsin area, we are placing a locomotive engineer trainee and a conductor trainee on almost every CN assignment operating in Stevens Point. With additional crew coming on board, we expect crew staffing in Wisconsin to return to adequate levels, and service concerns to ease, over the next few months.

We also are focused on enhancing our communications with our customers, particularly in the event of a service issue, so that they can plan accordingly. For example, CN has established our iAdvise initiative for merchandise customers, through which we are working to improve the communication that occurs from the last leg of the service into the final serving yard, which to our customers is the most visible and critical part of their supply chain. Enhancements in process and technology at the local level have been ongoing and they are at the core of these improvements. CN will provide two new advance notifications – at approximately 24 hours out and once the car arrives at the final serving yard – that will be available to our merchandise customers.

We are in the process of rolling out the iAdvise program in a pilot form with planned ongoing implementation across all Regions continuing throughout 2014 and into 2015. CN's efforts to improve customer communications will be especially useful with respect to such products as propane, which traditionally has been challenging during peak winter months when weather conditions become severe and demand spikes.

Investments in Freight Service and Capacity Improvements

In 2014, CN plans to invest approximately US$2.1 billion on capital programs system-wide, an increase of about US$100 million compared to 2013. The majority of our capital investment is targeted towards track infrastructure to continue operating a safe railway and to improve the capacity, productivity and fluidity of our rail network. This investment includes the replacement of rail, ties, and other track materials and bridge improvements, as well as various branch line upgrades.

CN's equipment capital expenditures are targeted to reach approximately US$350 million, allowing us to take advantage of growth opportunities and improve the quality of our fleet. The investment includes the acquisition of new locomotives, intermodal equipment and vehicles, as well as refurbishment of locomotives and freight cars. As I noted above, in order to handle expected traffic increases and improve operational efficiency, CN will take delivery of 60 new high-horsepower locomotives in 2014.

In light of another challenging winter and continued growth prospects, CN's original 2014 capital plan was increased by about US$100 million. These investments are targeted toward the Edmonton – Chicago corridor to accommodate growth and improve our network capacity and resiliency. More specifically, they include adding additional sections of double tracks between Saskatoon and Winnipeg, increasing capacity in Symington yard in Winnipeg, and Pokegama and Stevens Points yards in Wisconsin. It also includes double tracking of the Steelton Hill in Duluth, Minnesota. This two-year project will relieve congestion in the Winnipeg - Superior corridor. We have been receiving excellent cooperation from Minnesota stakeholders as well as the Army Corps of Engineers and are hopeful that we will be able to complete the project on schedule if we receive the required permits in the near future.

CN is completing the integration of our EJ&E property with two remaining connections to be completed by mid 2015. Spending of about US$8 million is targeted in 2014. We also will continue the upgrade of our Kirk Yard in Gary, Indiana, which was acquired as part of the EJ&E transaction, with an investment of US$36 million estimated for 2014.

CN will substantially complete this year the upgrade of our Whitehall subdivision to increase carloading capacity and train velocity for growing frac sand volume. CN plans to invest about US$15 million in 2014. In addition, given continued strong volume forecasts, CN will build two sidings and one support yard along the Whitehall subdivision and one siding along our Barron subdivision for an estimated investment of US$11 million in 2014.

Lastly, CN has allocated US$42 million in 2014 to continue the implementation of the U.S. federal government's mandate to deploy Positive Train Control (PTC) technology, compared to US$19 million in 2013. The cost to CN of PTC implementation is estimated at US$335 million for the entire project.

Chicago Fluidity and Integration of the EJ&E

As a founding participant in the CREATE project, CN has long understood the importance of improving the fluidity of Chicago-area rail operations. When we filed our application at the Board in October 2007 for authority to purchase the major portion of the Elgin, Joliet and Eastern Railway Company (EJ&E), we projected that, once fully implemented, the transaction would enable CN to reduce congestion in the Chicago-area rail network by taking CN trains off overloaded lines in the heart of Chicago and moving them to the EJ&E lines outside of Chicago. We also maintained that streamlined rail operations and reduced congestion would benefit our customers, the Chicagoland community, and the Chicago-area rail network, and that CN's investment in the EJ&E would complement the CREATE public/private infrastructure initiative, enabling attainment of CREATE objectives more quickly.

As we come to the end of the STB's six-year oversight period on the implementation of this transaction, I am pleased to report that all the private and public benefits CN envisioned have indeed been realized. CN has spent roughly $200 million to date constructing connections, installing safety equipment, and making other infrastructure investments along the line to improve efficiency and address mitigation concerns. This includes roughly $60 million spent to date implementing Voluntary Mitigation Agreements (VMAs) we reached with 28 of the 33 communities along the EJ&E, along with additional mitigation included in the final STB decision on the acquisition. In addition, we have invested nearly $100 million in Kirk Yard to make this a major CN yard for interchanging traffic outside of downtown Chicago. By moving traffic from congested rail lines through Chicago to the EJ&E tracks that arc around the metropolitan area, the transaction has been overwhelmingly beneficial for Illinois citizens and businesses.

As the Board is well aware, the Chicago region and much of CN's service territory experienced an unprecedented combination of extremely cold weather and heavy snow during this past winter. These extraordinary conditions caused major disruptions in operations and fluidity for all rail carriers in the Chicago area and throughout the upper Midwest. During this challenging period, integration of and improvements to the EJ&E line were especially important as they enabled CN to continue to provide service to our customers in Chicago and beyond far more effectively than we could have if we had been required to operate through severely congested central Chicago. CN's use of the EJ&E line also left more of the Chicago area's limited rail capacity open for use by other carriers who were also trying to manage the challenging winter conditions.

Thank you for the opportunity to comment on CN's operations and on our plans to ensure that we will be able to continue to all efficiently meet our customers' needs and to work safely with all our supply chain partners. Please do not hesitate to contact me if you need any additional information.

Sincerely,

Claude Mongeau
President and
Chief Executive Officer

cc: The Honorable Deb Miller, Vice Chairman
The Honorable Ann D. Begeman, Commissioner