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

Re: End-of-Year 2013 Railroad Service Outlook

Dear Mr. Chairman:

Thank you for your August 1, 2013 letter requesting information about CN's outlook and plans to meet expected demands for rail service in the United States for the remainder of 2013.

I would like to note at the outset that, while safety is always CN's primary focus and is the foundation of all that we do, we are particularly focused on ensuring the safety of our operations in the aftermath of the tragic Montreal, Maine & Atlantic Railway incident at Lac-Mégantic, Québec last month. CN is committed to continued improvement in our safety performance and to our ongoing efforts to ensure we have the safest work environment for the public, our customers, and ourselves.

Expectations for Seasonal Peaks in Carload and Intermodal Traffic

We are finding the economy somewhat soft in the third quarter of 2013, particularly with respect to bulk commodities. We expect some increases in traffic over the same period in 2012, but those increases likely will be muted because of weaknesses in the coal, grain, and fertilizer markets. We are seeing ongoing growth in lumber and panel shipments to the U.S., given the strengthening recovery of the U.S. housing market, as well as to Asian markets. However, we are experiencing continued weakness in pulp, paper, steel, and related products. We believe total carloadings will increase at a better pace in the last quarter of this year, subject to a strong crop harvest in Canada and the U.S. Midwest and some recovery in U.S. domestic and export coal movements.

We anticipate sustained demand for crude oil movements from an increased number of loading stations and increased overall activities on the network. We also see ongoing demand growth in energy consumables for drilling, such as frac sand.

In intermodal, we have had a solid performance this year, with greater improvements in exports than imports, including in the United States. We expect our overall U.S. intermodal growth for both our domestic and international business to be about 8 percent for 2013 over 2012.

Resources to Meet Volume Increases

CN is well prepared for the fall peak. We have undertaken a number of initiatives to ensure that we are in a position to continue to efficiently handle our customers' freight transportation needs for the balance of 2013. We are gearing up for traffic increases and have made plans to ensure that CN will have sufficient cars and locomotives to accommodate volume growth.

We also have sufficient train crew availability to meet anticipated traffic levels. We have been hiring consistently throughout the year, in anticipation of year-end demands, and almost 50 percent of the 464 employees hired in the U.S. to date in 2013 are directly involved in train operations. In addition, we currently have a number of people in the Southern Region on furlough status waiting for the fall peak period. We are scheduling two to three more conductor training classes for the remainder of the year, which should address the few terminals at which we wish to augment our crews before year-end.

CN has launched a revitalized company-wide employee training program to meet the learning needs of our current and future railroaders. The centralized program aims to bring consistency to CN's workforce and more hands-on learning for students, with a strong focus on safety as a systematic part of all railroad activities at the company. The new training program adds a uniform foundation to CN's existing training initiatives, putting all employees through a consistent, monitored curriculum before returning to home terminals. Employees will put their learned skills into practice through field training and mentoring, allowing them to develop proficiency and confidence in their work environment. The initiative will be anchored by two modern training centers – one, which is now under construction in Winnipeg, Manitoba, and the second in Homewood, Illinois. The U.S. training center is expected to be completed by the fall of 2014.

I would also like to note that, with the completion of the intracorporate merger of the Elgin, Joliet and Eastern Railway Company (EJ&E) into the Wisconsin Central (WC) on January 1, 2013, and voluntary agreements with the train and engine service employees' unions, former EJ&E employees are now WC employees governed by the respective collective bargaining agreement. These WC collective bargaining agreements provide for greater efficiencies, productivity, and work/life balance than existed under the former EJ&E agreements.

In the intermodal area, CN continues to invest in intermodal facilities in the Midwest. As part of CN's acquisition of the EJ&E, CN opened a second intermodal facility in the Chicago area in Joliet, Illinois on June 3, 2013. On August 1, 2013, we opened a new facility in Indianapolis, Indiana in conjunction with a short-line partner, Indiana Rail Road Company. Both facilities are designed to offer our U.S.-based customers access to new and improved supply chain options to receive containerized cargo. These facilities were established with a view to support the global sales of export commodities and thus were equipped with onsite grain transload capabilities. CN also supports and has been working with Archer Daniels Midland on its intermodal ramp located in a free trade zone in Decatur, Illinois. This facility, which will be opening this September, will have the capacity to transfer over 100,000 freight containers annually. By minimizing overall costs in the supply chain, the competitiveness of U.S. exporters will be further enhanced.

<u>CN Actions to Prepare for the End-of-Year Shipping Season for Key Commodities</u>

CN continues to focus on balancing operational and service excellence. CN's core operating metrics – yard productivity, terminal dwell time, locomotive utilization, and train and car velocity – are strong across-the-board. We are delivering on speed and throughput at the same time as customer service.

With respect to the specific commodities identified in your letter, please note the following:

- *Agriculture* – On grain, we recently completed our review of our grain covered hopper fleet and assessed that we are sized properly. Cars have been inspected to ensure that they are suitable for use, with repairs being undertaken as needed. We have also pre-positioned fleet in strategic locations across our network to be ready when the harvest arrives. CN also has regular dialogue with our Class I colleagues on the flow of unit trains to the Gulf of Mexico for export in order to minimize congestion at the export terminals.

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On ethanol shipments, we work with our customers to schedule our ethanol unit trains. CN's Bulk Operations group manages these movements to ensure that power is available to move the loads on time, coordinates with our connections so the trains move through the interchanges smoothly, and will have regular dialogue with those connections so that we efficiently handle the empty trains.

- *Coal* – Both domestic and export coal traffic have been weaker this year compared to 2012. While we expect some improvements in 2014, we do not see much demand increase for the remainder of this year. Our existing facilities and network are sufficient to meet anticipated needs this year, and we are continuing to enhance our infrastructure in anticipation of stronger coal demand in the future to ensure that we will not have logistical challenges at that time.

- *Chemicals* – Year to date, we have experienced carload growth at a rate that slightly exceeds general economic growth and we are expecting this level to remain flat or slightly increase by year end. Growth in this market is due to higher plant capacity utilization and new builds in the U.S. Gulf Coast made possible by the abundance of low cost natural gas. CN's existing infrastructure is sufficient to meet anticipated customer needs in this sector for the remainder of 2013.

- *Intermodal* – We are driving continued performance with new terminals, as noted above, as well as new products and an intense focus on end-to-end service. We also are acquiring new containers this year in order to better serve our customers.

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. This approach, supported by the establishment of clear measures for all supply chain components, continues to improve the efficiency and reliability of the supply chains we serve.

<u>Plans to Support Demands for Prompt Movement of Finished Autos and Light Trucks</u>

CN is well positioned to handle movements of finished automobiles and light trucks. CN provides access to specific vehicle assembly plants in Michigan and Mississippi, as well as in Canada. CN also serves vehicle-distribution facilities in Canada and the United States, as well as parts-production facilities in Michigan and Ontario. CN serves shippers of import vehicles through the ports of Halifax and Vancouver and through interchange with other railroads.

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Through July, CN's automotive sector has been running within one percent of last year's levels with a slight improvement projected for the balance of 2013. We anticipate North American vehicle production to increase between four to five percent for the second half of the year versus 2012, and we have added multilevel capacity to help meet the increased demand.

Plans to Support Demands for Movement of Crude Oil and Drilling-Related Products

We expect to see continued volume increases in long-haul crude movements by rail, and we are experiencing continued growth in the demand for energy consumables.

As crude oil shipments destined to the Gulf region network of our railway have grown during the last few years, CN has also invested to expand its main rail yards and area siding capacities in order to handle this extra volume. CN recently has made significant capital investments to its network in the Baton Rouge, Louisiana area in order to position our railway to benefit from this expected continued traffic growth.

CN also provides an alternative for Northern Alberta bitumen shippers who face the time lags and financial challenges of new pipeline construction. CN and our customers are building and expanding rail terminals on our network in Western Canada to allow for a scaleable, flexible, and better supply chain.

With respect to the Bakken Formation, CN is providing a direct truck-to-rail transportation option for Bakken crude oil at Willmar, Woodnorth and Bienfait, in Saskatchewan

As drilling activity has expanded across southern Saskatchewan and southeastern Manitoba in recent years, CN continues to invest to support this growth in Canadian crude oil production. Recently, the railway has spent over US$10 million to establish a transload site at Bienfait, Saskatchewan in order to support the efficient movement of all energy-related products.

In addition, CN continues to move drilling pipe and frac sand to the different shale development areas via our interline partnerships as well as destination transload terminals that have sufficient capacity to handle the growth.

Specifically on frac sand, CN is accelerating work on the US$33 million upgrading of our Whitehall Subdivision to increase car-loading capacity and train velocity for growing frac sand supply chains. CN will improve the 74-mile section of the Whitehall Subdivision between Wisconsin Rapids and Blair, Wisconsin in three years rather than four, to obtain quicker customer gains. The improvement program will permit the transportation of heavier loaded frac sand freight cars weighing a maximum of 286,000 pounds, thereby increasing the volume per car. This will generate increased productivity for customer car fleets and increasing train speed for CN. Work began in 2012 and the full program should be completed by December 2014.

CN has announced that we will start serving a new state-of-the art frac sand terminal north of Grande Prairie, Alberta, starting in November 2013. This facility will have an annual throughput capacity of 550,000 tons of frac sand.

Let me assure you that increased traffic in crude and other petroleum and related products will not come at the expense of the traffic of our other customers. While we are seeing solid gains in this business, we remain committed to meeting our customers' needs for all types of cargo across our system. Our focus on collaboration with our customers and the efficiency of the overall supply chain, combined with CN's attention to balancing operational and service excellence, enhances the efficiency of our operations. At the same time, as outlined in greater detail below, CN continues to make significant investments to maintain and improve our infrastructure to ensure that we will live up to our customers' expectations.

<u>Investments Made in Freight Rail Service and Capacity Improvements/Areas of Existing or Anticipated Congestion</u>

While we experienced a difficult winter earlier this year – with extreme cold and heavy snow that affected network fluidity and the service we provided to our customers – we have recovered, restoring service levels to our customers and preparing for growth. Likewise, our seven U.S./Canada border crossing locations and our major interchanges with our rail industry colleagues remain fluid.

CN plans to invest approximately US$1.9 billion in 2013 on capital programs system-wide, an increase of about US$100 million compared to 2012. The majority of our capital investment program is focused on track infrastructure to continue operating a safe railway and to improve the productivity and fluidity of our rail network. This includes replacement of rail, ties, and other track materials, as well as bridge improvements.

CN's equipment spending, which will reach approximately $200 million in 2013, is intended to improve the quality of the fleet to meet customer requirements and includes the acquisition of locomotives, intermodal equipment, and vehicles as well as refurbishment of locomotives and cars. Earlier this year, CN took delivery of 10 new fuel-efficient locomotives and 37 second-hand high-horsepower locomotives.

As a result of our experience over this past winter, we augmented our original capital expenditure plans for 2013 by an additional US$100 million, investing to improve our network resilience and to drive productivity. These targeted investments in Canada along our key Edmonton to Winnipeg corridor include a new detour route on CN's Prairie Line North, adding long sidings to increase capacity, increasing our capacity at Symington Yard in Winnipeg, and constructing a new section of double tracking.

CN will nearly complete in 2013 the integration of our EJ&E property. The acquisition is driving new efficiencies and operating improvements on CN's network as a result of streamlined rail operations and reduced congestion in the Chicago area. Spending of about US$15 million is targeted in 2013. In addition CN will continue the upgrade of our Kirk Yard in Gary, Indiana, with approximately US$30 million to be invested in 2013.

As mentioned above, CN is restoring and upgrading rail lines in Wisconsin to move more frac sand and to develop a more robust supply chain for our customers in Wisconsin to connect with the oil and gas shale basins in North America. Expenditures for Whitehall and other related projects are expected total approximately US$20 million in 2013.

With respect to intermodal, as also noted above, we opened our newest intermodal terminal in Joliet, Illinois earlier this year. The terminal will offer importers and exporters key access to numerous Chicagoland distribution centers. In addition, CN will acquire about 1,000 new containers this year to better serve manufacturers and distributors of grocery and consumer goods in the U.S. and Canadian domestic markets that we serve.

Lastly, we have allocated US$24 million in 2013 for costs associated with CN's implementation of the U.S. federal government's legislative requirement to deploy Positive Train Control (PTC) technology by 2015, compared to $11.5 million in 2012. The cost to CN of PTC implementation is estimated at US$220 million for the entire project.

Thank you for this opportunity to comment on CN's operations and on our upcoming plans to ensure that we will be able to safely and efficiently meet the needs of our customers. Please do not hesitate to contact me if you need any additional information.

Sincerely,

Claude Mongeau
President and
Chief Executive Officer

cc: Vice Chairman Begeman
Commissioner Mulvey