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April 27, 2006

By Electronic Filing

Honorable Vernon A. Williams, Secretary
Surface Transportation Board
1925 K Street, N.W.
Washington, D.C. 20423-0001

Re: Ex Parte No. 661, *Rail Fuel Surcharges*

Dear Mr. Williams:

Pursuant to the Board's notice of public hearing in the above-entitled proceeding, served March 14, 2006, Canadian National Railway Company ("CN") submits for the record the enclosed statement.

Sincerely,

Theodore K. Kalick

**BEFORE THE
SURFACE TRANSPORTATION BOARD**

EX PARTE NO. 661

RAIL FUEL SURCHARGES

**STATEMENT OF
CANADIAN NATIONAL RAILWAY COMPANY**

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**BEFORE THE
SURFACE TRANSPORTATION BOARD**

EX PARTE NO. 661

RAIL FUEL SURCHARGES

**STATEMENT OF
CANADIAN NATIONAL RAILWAY COMPANY**

In this proceeding, the Board has called a public hearing to address concerns that fuel surcharges collected by railroads "are designed to recover amounts over and above increased fuel costs." CN does not conduct its business in that way. When CN decides to increase prices for its transportation services, services that we expect will generate earnings for the Company, those prices are reflected in our base rates.

CN did not establish a fuel surcharge to increase profits. Instead, CN has designed and implemented the surcharge to recover, with minimum burden on our customers, the increases in fuel expenses we have experienced in a volatile fuel market. In the markets that we face for our business, and for our customers whose business we value, it would be self-defeating for CN to exploit the surcharge in any other way.

In evaluating over the past several years how to address increasing fuel expenses, CN would be the first to acknowledge that there may be a number of approaches for the recovery of such costs. The complexity of the matter, however, ensures that no approach is problem-free or necessarily preferable. As such, the drivers of CN's fuel surcharge are the same as for any other business decision: what makes sense, is reasonable, and

contributes to the railroad's long-term capabilities to provide quality rail service to our customers. We believe that CN's fuel surcharge is market responsive, simple in its application, and equitably and fairly applied. As it has been implemented, our strategy is to drive for universal application of the fuel surcharge, without discounts, across our customer base that will enable us to deliver the lowest possible surcharge to recover the increased fuel expenses we are incurring.

CN'S FUEL SURCHARGE

The application of CN's fuel surcharge has been a dynamic process, one that has evolved significantly since its inception. The fuel surcharge was introduced initially in CN Tariff 7400 in May 2001. Its implementation in that tariff, and in two subsequent iterations in April and October of 2005 in CN Tariff 7401, reflected the reality that fuel costs were becoming a compelling economic issue for our customers and CN to a degree that required heightened monitoring and a cost-recovery mechanism apart from the base rates for our transportation services.

CN applies the fuel surcharge as a percentage of our revenues, based on the monthly average per-barrel price of West Texas Intermediate (WTI) crude oil as published in the Wall Street Journal, and in its current form in CN Tariff 7401, application of the surcharge is triggered when the price of WTI crude is \$25 per barrel and above.¹ The surcharge reflects the relationship of CN's total fuel expenses to total revenues, and in any monthly period is intended to recover CN's increased fuel expenses from across our customer base after WTI crude prices reach the \$25 per barrel threshold.

¹ In CN Tariff 7400, application of the surcharge started when the price of WTI crude reached \$24 per barrel. In either circumstance, CN's fuel costs reflective of WTI crude prices below the surcharge-commencing level are factored into CN's base rates.

For ease of application, the surcharge amount is increased (or decreased) at incremental amounts reflective of that relationship based on a defined increase (or decrease) in the price of WTI crude. Thus, for each additional \$1 per barrel in WTI crude oil above \$25, CN's fuel surcharge increases by 0.25%.²

CN's objective since the inception of the fuel surcharge has been to apply the surcharge equally to all of our customers. Some customers, seeking favored treatment, have resisted that approach. But as confidential contracts have expired and we have worked further with our customers, we are achieving an increasingly universal, equitable, and more affordable surcharge application. In April 2005, CN adopted CN Tariff 7401 that reduced surcharge rates approximately 25% below those in CN Tariff 7400. Driven by efforts to gain even wider coverage and eliminate remaining variances from the tariff, and with surcharge-application rates in the second half of 2005 approaching 75% of our customer base, we reduced surcharge rates an additional 15% in a subsequent modification to CN Tariff 7401 in October 2005.³ As a percentage of carrier revenues, CN's fuel surcharge rates are currently the lowest in the industry.

To make the fuel surcharge further responsive to market and customer needs, CN Tariff 7401 also modified the period used for measuring changes in the price of WTI crude oil and the timing of surcharge adjustments. In its original form in CN Tariff 7400, the surcharge was calculated and adjusted on a quarterly basis, with surcharge amounts

² A decrease of \$1 per barrel in WTI crude would likewise reduce the fuel surcharge by 0.25% until the WTI price reached \$25. Any reduction in the WTI price below \$25 would avoid application of the surcharge.

³ A fuel surcharge comparison of the revised CN Tariff 7401 (October 2005) with surcharges in CN Tariff 7400 (May 2001) and the initial version of CN Tariff 7401 (April 2005), along with a copy of CN Tariff 7401 and the schedule outlining the application of surcharge amounts, are provided as an Attachment to this statement.

changing in 2% increments upon a \$5 per barrel average increase (or decrease) in the price of WTI crude in the previous quarter. CN Tariff 7401 now directs calculation of the fuel surcharge on a monthly basis and has also decreased the trigger for surcharge changes from the original \$5 increment in CN Tariff 7400 to \$1, allowing for a more timely response to changes (decreases as well as increases) in the price of WTI. Moreover, unlike CN Tariff 7400, any surcharge adjustment that is made pursuant to CN Tariff 7401 is based upon changes in the price for WTI measured in the second calendar month prior to the adjustment, allowing our customers to receive 20 days' advance notice of any changes and time to respond internally and to their own markets.

CN'S FUEL SURCHARGE REASONABLY BALANCES EQUITY AND SIMPLICITY

Central to CN's efforts to establish a market-responsive mechanism to equitably recover increased fuel costs is to ensure that the mechanism is workable. As much as any other concern, our customers insist that the surcharge mechanism be simple to understand, easy and straightforward to administer, and minimize the chances for dispute (providing, for example, for invoicing that minimizes tracking and customer billing issues).⁴ CN's revenue-based surcharge has satisfied these goals. As with other business matters, the balance between equity and simplicity in CN's design and application of the fuel surcharge allows CN and our customers to concentrate more on central issues concerning the delivery of more effective and innovative transportation services.

⁴ Also, CN does not just provide local service. Much of our business is in interline service with other rail carriers, requiring payments to and from connecting carriers under the industry's Interline Settlement System (ISS). The ISS can only process interline settlements incorporating fuel surcharges when the surcharges are stated as a percentage of revenues.

CN, of course, is aware of the call in some quarters for rail carriers to convert to mileage-based fuel surcharges on the grounds that revenue-based surcharges over-recover increases in fuel expense and do not distribute fuel cost recovery precisely due to differences in fuel cost per dollar of revenue for differently rated traffic. CN would suggest that, in its application, a fuel surcharge based on car miles is not likely to be significantly more equitable, if at all, since fuel cost per car mile can vary widely depending on characteristics such as tons per car, empty return ratio, track conditions, geography, weather, and other factors affecting service. Moreover, in contrast to a revenue-based surcharge, a mileage-based surcharge invariably will be more complex, customer unfriendly, and present a greater menu of potential disputes, starting with the issue of methodologies and systems for calculating, tracking, and administering applicable mileage.⁵ In CN's judgment, the minor improvement in equity that might possibly be gained by using a mileage-based fuel surcharge is less than meets the eye and would not justify the increased complexity and costs that CN and our customers would likely face as a result of such a system.

Claims regarding the over-recovery of revenue-based surcharges are also misplaced, at least for CN. Many such claims assume that railroads apply the fuel surcharge to 100% of their traffic. While some customers may be assessed a fuel surcharge on all of their own traffic, it is not a valid measure of whether CN is over-

⁵ Customers having experience with mileage-based trucking fuel surcharges, for example, may be accustomed to mileage measurements based on highway miles, which can differ significantly from rail miles, let alone differences in rail miles that are presented upon routing changes. Further, necessary modifications to the ISS and the Electronic Data Interchange (EDI) to accommodate mileage-based surcharges applied to interline traffic are likely to take several years to implement at significant cost to carriers and their customers.

recovering on the fuel surcharge as a whole. It is well known that, while CN has significantly increased application of the fuel surcharge to our traffic base since its inception in 2001, contractual considerations still preclude universal application.

Further, such claims typically fail to remove hedging gains from reported fuel costs. Like other Class 1 carriers, we have suspended our hedging program at CN and will have no hedging by late 2006. More fundamentally, hedging does not protect against rising fuel prices; it only flattens out costs over time, and parties are just as likely to lose as gain on hedging activities in any given year. CN believes that any analysis of railroad fuel costs the Board may wish to conduct must be based solely on current market prices.

Finally, there is the inherent risk that the fuel surcharge will not fully compensate CN for its increased fuel expenses. On average, crude oil represents about 75% of locomotive diesel prices, and carriers are exposed to fluctuating refinery and retail margins as well. Refinery margins are likely to be pushed up by low-sulfur regulations beginning as early as mid-2006 in markets where we buy the same products as trucks, and could be further increased if, as predicted, the upcoming hurricane season proves difficult in refining areas.

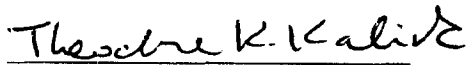
In sum, when properly measured and placed in context, since its inception five years ago, CN's revenue-based surcharge has not over-recovered our increase in fuel expenses. Instead, consistent with steps that CN has taken previously that have already led to significantly reduced fuel surcharge rates, and with a mechanism that is simple to apply and administer, we are committed to the goal of bringing all of our customers onto CN Tariff 7401 as soon as possible and implementing the surcharge across our customer base. Such universal application, we believe, affords CN the most effective, efficient,

and equitable way to recover our fuel expenses, while delivering to our customers the lowest surcharge possible.

Respectfully submitted,

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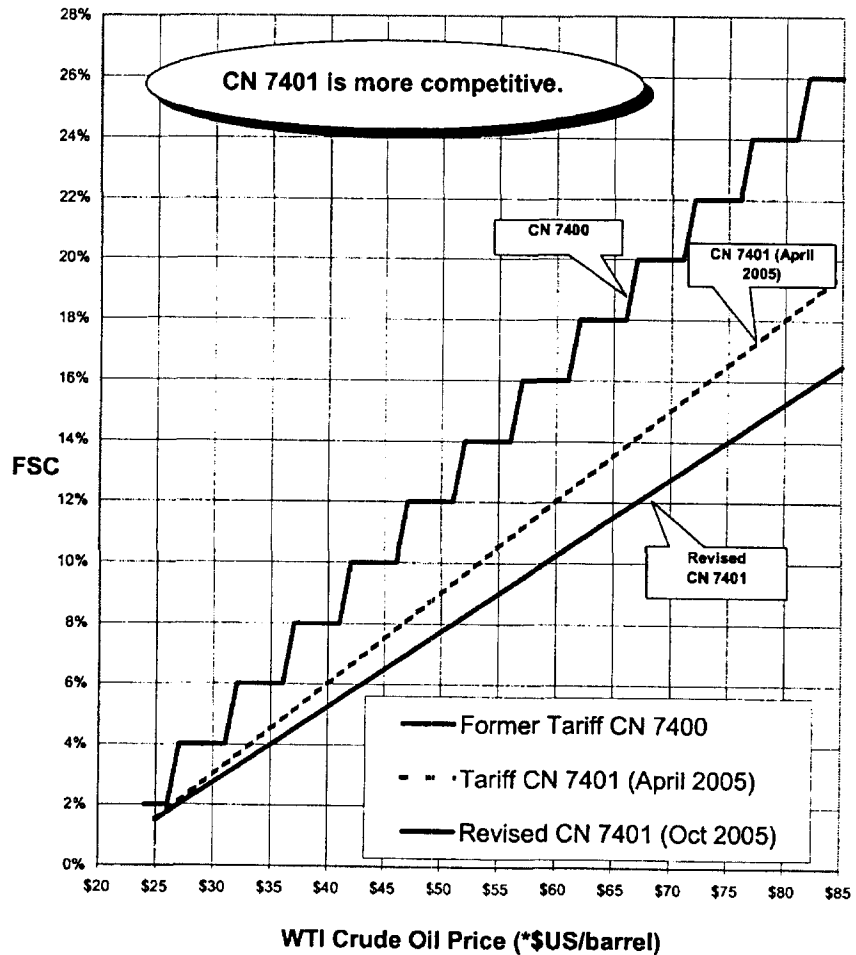
Dated: April 27, 2006

ATTACHMENT

**CANADIAN NATIONAL RAILWAY COMPANY
CN 7401-A FUEL SURCHARGE NOTICE**

WTI Crude Oil*	Former Tariff CN 7400	Tariff CN 7401 (April 2005)	Revised CN 7401 (Oct 2005)
\$20			
\$21			
\$22			
\$23			
\$24	2.0%		
\$25	2.0%	1.50%	1.50%
\$26	2.0%	1.80%	1.75%
\$27	4.0%	2.10%	2.00%
\$28	4.0%	2.40%	2.25%
\$29	4.0%	2.70%	2.50%
\$30	4.0%	3.00%	2.75%
\$31	4.0%	3.30%	3.00%
\$32	6.0%	3.60%	3.25%
\$33	6.0%	3.90%	3.50%
\$34	6.0%	4.20%	3.75%
\$35	6.0%	4.50%	4.00%
\$36	6.0%	4.80%	4.25%
\$37	8.0%	5.10%	4.50%
\$38	8.0%	5.40%	4.75%
\$39	8.0%	5.70%	5.00%
\$40	8.0%	6.00%	5.25%
\$41	8.0%	6.30%	5.50%
\$42	10.0%	6.60%	5.75%
\$43	10.0%	6.90%	6.00%
\$44	10.0%	7.20%	6.25%
\$45	10.0%	7.50%	6.50%
\$46	10.0%	7.80%	6.75%
\$47	12.0%	8.10%	7.00%
\$48	12.0%	8.40%	7.25%
\$49	12.0%	8.70%	7.50%
\$50	12.0%	9.00%	7.75%
\$51	12.0%	9.30%	8.00%
\$52	14.0%	9.60%	8.25%
\$53	14.0%	9.90%	8.50%
\$54	14.0%	10.20%	8.75%
\$55	14.0%	10.50%	9.00%
\$56	14.0%	10.80%	9.25%
\$57	16.0%	11.10%	9.50%
\$58	16.0%	11.40%	9.75%
\$59	16.0%	11.70%	10.00%
\$60	16.0%	12.00%	10.25%
\$61	16.0%	12.30%	10.50%
\$62	18.0%	12.60%	10.75%
\$63	18.0%	12.90%	11.00%
\$64	18.0%	13.20%	11.25%
\$65	18.0%	13.50%	11.50%
\$66	18.0%	13.80%	11.75%
\$67	20.0%	14.10%	12.00%
\$68	20.0%	14.40%	12.25%
\$69	20.0%	14.70%	12.50%
\$70	20.0%	15.00%	12.75%
\$71	20.0%	15.30%	13.00%
\$72	22.0%	15.60%	13.25%
\$73	22.0%	15.90%	13.50%
\$74	22.0%	16.20%	13.75%
\$75	22.0%	16.50%	14.00%
\$76	22.0%	16.80%	14.25%
\$77	24.0%	17.10%	14.50%
\$78	24.0%	17.40%	14.75%
\$79	24.0%	17.70%	15.00%
\$80	24.0%	18.00%	15.25%
\$81	24.0%	18.30%	15.50%
\$82	26.0%	18.60%	15.75%
\$83	26.0%	18.90%	16.00%
\$84	26.0%	19.20%	16.25%
\$85	26.0%	19.50%	16.50%

Fuel Surcharge (FSC) Comparison Revised CN 7401 versus CN 7401 (April 2005) and CN 7400





CANADIAN NATIONAL RAILWAY COMPANY

TARIFF CN 7401-A cancels CN 7401

APPLICATION OF FUEL SURCHARGE

ISSUED: SEPTEMBER 21, 2005

EFFECTIVE: OCTOBER 1, 2005

CANADIAN NATIONAL RAILWAY COMPANY is contracting in its own name and for and on behalf of GRAND TRUNK WESTERN RAILROAD INCORPORATED (GTW), DULUTH, WINNIPEG AND PACIFIC RAILWAY COMPANY (DWP), ILLINOIS CENTRAL RAILROAD COMPANY (IC), CHICAGO CENTRAL & PACIFIC RAILROAD COMPANY (CC), CEDAR RIVER RAILROAD COMPANY (CEDR), WISCONSIN CENTRAL LIMITED (WC), ALGOMA CENTRAL RAILROAD INC (AC), (SSAM), FOX VALLEY & WESTERN LTD (FVW) AND WISCONSIN CHICAGO LINK LTD (WCCL), DULUTH, MISSABE AND IRON RANGE RAILWAY COMPANY (DMIR), BESSEMER AND LAKE ERIE RAILROAD COMPANY (BLE), THE PITTSBURGH & CONNEAUT DOCK COMPANY, BC RAIL PARTNERSHIP AND BC RAIL LTD. (BCOL) and these companies do business under the name of and are collectively referred to as "CANADIAN NATIONAL" (CN).

Issued by Price Maintenance and Distribution, Automated Invoicing,
Canadian National Railway Company, P.O. Box 8100, Montreal, P.Q. H3C 3N4

**CANADIAN NATIONAL RAILWAY COMPANY
TARIFF CN 7401-A**

ITEM 100

FUEL SURCHARGE

CN will apply a fuel surcharge to the line haul freight charge(s) based on the monthly average price of West Texas Intermediate (WTI) crude oil, as published in the Wall Street Journal (WSJ).

The formula for determining the monthly average price of WTI crude oil is determined by adding the daily WTI prices published in the WSJ during a given month, and dividing the result by the number of days so published. The result is rounded to the nearest cent.

When the WTI crude oil monthly average price equals or exceeds \$25.00 in the second calendar month prior to the month in which the fuel surcharge is applied, the fuel surcharge will be calculated starting from a base of 1.5% of the line haul freight charge. For each additional \$1.00 per barrel of WTI crude oil above \$25.00, the fuel surcharge will increase by an incremental 0.25%. For example, the surcharge amount in April will be calculated from the average WTI crude oil price during February.

The date of surcharge shall be applied as follows:

WTI Average Price During the Calendar Month	...is used to calculate the surcharge on:
January	March 1
February	April 1
March	May 1
April	June 1
May	July 1
June	August 1
July	September 1
August	October 1
September	November 1
October	December 1
November	January 1
December	February 1

Notification of any fuel surcharge changes will be posted a minimum of 20 days prior to the beginning of each calendar month on the CN website at www.cn.ca/fuelsurcharge and forms part of this tariff.

**CANADIAN NATIONAL RAILWAY COMPANY
TARIFF CN 7401-A**

The fuel surcharge shall be applied according to the following schedule:

West Texas Intermediate Crude Oil (Price per Barrel \$US)	Surcharge	West Texas Intermediate Crude Oil (Price per Barrel \$US)	Surcharge
Less than \$25.00	No surcharge	\$56.00 - \$56.99	9.25%
\$25.00 - \$25.99	1.50%	\$57.00 - \$57.99	9.50%
\$26.00 - \$26.99	1.75%	\$58.00 - \$58.99	9.75%
\$27.00 - \$27.99	2.00%	\$59.00 - \$59.99	10.00%
\$28.00 - \$28.99	2.25%	\$60.00 - \$60.99	10.25%
\$29.00 - \$29.99	2.50%	\$61.00 - \$61.99	10.50%
\$30.00 - \$30.99	2.75%	\$62.00 - \$62.99	10.75%
\$31.00 - \$31.99	3.00%	\$63.00 - \$63.99	11.00%
\$32.00 - \$32.99	3.25%	\$64.00 - \$64.99	11.25%
\$33.00 - \$33.99	3.50%	\$65.00 - \$65.99	11.50%
\$34.00 - \$34.99	3.75%	\$66.00 - \$66.99	11.75%
\$35.00 - \$35.99	4.00%	\$67.00 - \$67.99	12.00%
\$36.00 - \$36.99	4.25%	\$68.00 - \$68.99	12.25%
\$37.00 - \$37.99	4.50%	\$69.00 - \$69.99	12.50%
\$38.00 - \$38.99	4.75%	\$70.00 - \$70.99	12.75%
\$39.00 - \$39.99	5.00%	\$71.00 - \$71.99	13.00%
\$40.00 - \$40.99	5.25%	\$72.00 - \$72.99	13.25%
\$41.00 - \$41.99	5.50%	\$73.00 - \$73.99	13.50%
\$42.00 - \$42.99	5.75%	\$74.00 - \$74.99	13.75%
\$43.00 - \$43.99	6.00%	\$75.00 - \$75.99	14.00%
\$44.00 - \$44.99	6.25%	\$76.00 - \$76.99	14.25%
\$45.00 - \$45.99	6.50%	\$77.00 - \$77.99	14.50%
\$46.00 - \$46.99	6.75%	\$78.00 - \$78.99	14.75%
\$47.00 - \$47.99	7.00%	\$79.00 - \$79.99	15.00%
\$48.00 - \$48.99	7.25%	\$80.00 - \$80.99	15.25%
\$49.00 - \$49.99	7.50%	\$81.00 - \$81.99	15.50%
\$50.00 - \$50.99	7.75%	\$82.00 - \$82.99	15.75%
\$51.00 - \$51.99	8.00%	\$83.00 - \$83.99	16.00%
\$52.00 - \$52.99	8.25%	\$84.00 - \$84.99	16.25%
\$53.00 - \$53.99	8.50%	\$85.00 - \$85.99	16.50%
\$54.00 - \$54.99	8.75%	Each \$1.00 US incremental increase thereafter	Additional 0.25%*
\$55.00 - \$55.99	9.00%		

* For example, \$86.00 - \$86.99 = 16.75%, \$87.00 - \$87.99 = 17.00%, etc.

ITEM 200

APPLICATION

This fuel surcharge tariff, CN 7401, applies to all publications that directly reference the tariff CN 7401. All other publications referencing fuel surcharges will default to tariff CN 7400.