



SURFACE TRANSPORTATION BOARD
Washington, DC 20423

Section of Environmental Analysis

April 8, 2008

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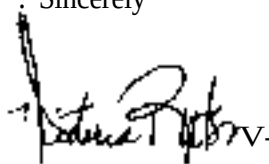
Re: STB Finance Docket No. 35087, Canadian National Railway Company and Grand Trunk Corporation - Control - EJ&K West Company

Dear Mr. Pellerin:

To ensure the accuracy of the information used in the Section of Environmental Analysis* environmental review for the above-referenced proceeding, I am requesting that the Applicants review the enclosed redacted draft description of the purpose of and the need for the proposed action.

Thank you for your continued assistance. Please provide a copy of your response as soon as possible to Phillis Johnson-Bali of my staff and to our independent third-party consultant, John Morton, at HDR, 8404 Indian Hills Drive, Omaha, Nebraska, 68114-4098.

Sincerely



Victoria J. Riitson
Chief

Section of Environmental Analysis

Cc- Phillis Johnson-Bali, STB
John Morton, HDR Engineering, Inc.

Chapter 1

Purpose of and Need for the Proposed Action

1.1 Introduction

On October 30, 2007, Canadian National Railway Company and Grand Trunk Corporation (collectively, CN or the Applicants) filed an application with the Surface Transportation Board (the Board) seeking the Board's approval to acquire control of EJ&E West Company,¹ a wholly owned noncarrier subsidiary of Elgin, Joliet and Eastern Railway Company (EJ&E). The Applicants are proposing to acquire control of EJ&E West Company and to use the EJ&E rail line to connect all five of CN's rail lines in the Chicago area (the Proposed Action). The EJ&E rail line, located in northeastern Illinois and northwestern Indiana, extends in an arc around Chicago as follows:

- « From Waukegan, Illinois, southward to Joliet, Illinois
- » From Joliet eastward to Gary, Indiana
- * From Gary northwest to South Chicago along Lake Michigan

Figure 1.1-1, Project Vicinity, shows the existing CN and EJ&E rail system.

Before the Applicants acquire control of EJ&E West Company, EJ&E would transfer all of its land, rail, and related assets located west of the centerline of Buchanan Street in Gary to EJ&E West Company. At that time, EJ&E West Company would become a rail common carrier. EJ&E would retain its land, rail, and related assets east of the centerline.² If the Board approves the Proposed Action, EJ&E would change its name to Gary Railway Company and EJ&E West Company would assume the Elgin, Joliet and Eastern Railway Company name. Therefore, this Environmental Impact Statement (EIS) refers to the proposed acquisition of EJ&E.

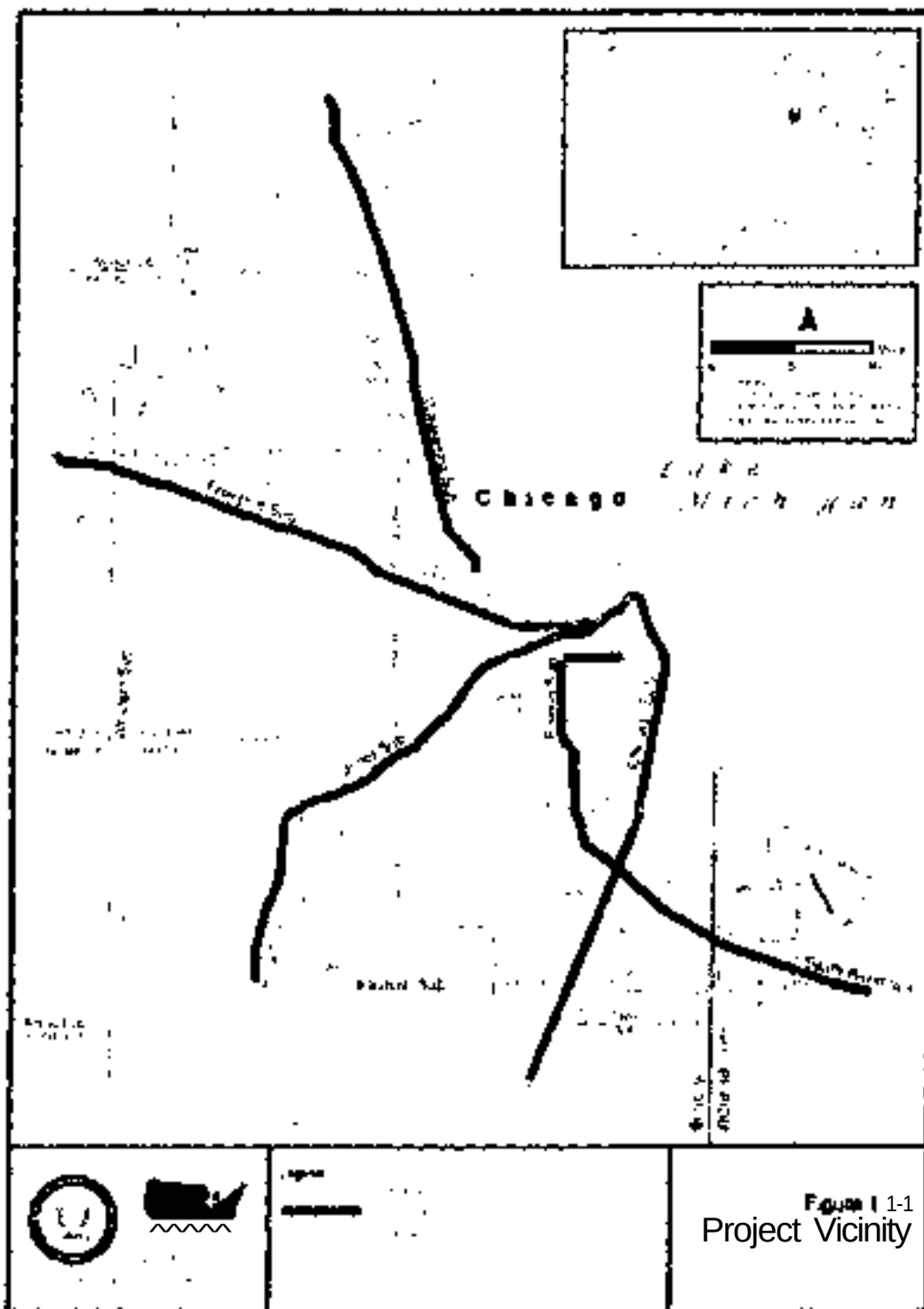
CN would shift much of the rail traffic currently moving over CN's rail lines in Chicago to the EJ&E rail line. Rail traffic on CN rail lines inside the EJ&E arc would generally decrease, and the number of trains operating on the EJ&E rail line outside Chicago would increase by approximately 15 to 24 trains per day. The Proposed Action would also involve construction of six new rail connections, siding extensions, and second mainline track (double track). The Applicants state that they do not anticipate any rail line abandonments in conjunction with the Proposed Action (Applicants 2007).

On December 21, 2007, the Board issued a Notice of Intent (NOI) to prepare, through its Section of Environmental Analysis (SEA), an EIS for this proceeding (Federal Register [FR] 2007). The Board determined that an EIS is warranted in accordance with the National Environmental Policy Act of 1969, as amended (NEPA) (Board 2007a; 42 United States Code [USC] 4321 et seq.). The President's Council on Environmental Quality (CEQ) regulations implementing NEPA and the Board's own environmental rules prescribe the level of documentation required for the environmental review process; actions that may significantly affect the environment generally require an EIS (40 Code of Federal Regulations [CFR] 1508.18; 49 CFR 1105.4(f); 49 CFR 1105.5). In the case of the Proposed Action, the projected increases in train traffic on certain rail line segments and at rail facilities would exceed the Board's thresholds for environmental analysis. The Board based its decision to prepare an EIS on the information provided in the Application and on a number of concerns expressed by communities potentially affected by the Proposed Action,

¹ EJ&E West Company is an Illinois corporation formed on August 16, 2007.

² Except for property associated with two lead tracks (the Dixie and hump leads) providing access to Kirk Yard at Gary,

Figure 1.1-1. Project Vicinity



1.2 Background

The following sections address the congested rail system in the Chicago area, the Applicants and the CN rail system, as well as EJ&E and its rail system.

1.2.1 The Rail System in the Chicago Area

Chicago is the only city in the United States where six Class I railroads (BNSF Railway Company [BNSF], CN, Canadian Pacific Railway Company [CPR], CSX Transportation, Inc. [CSX], Norfolk Southern [NS], and Union Pacific Railroad Company [UP]) meet to interchange freight. In Chicago, the railroads exchange freight between the East, West, and Gulf coasts and between the United States and Canada. In addition to the six Class I railroads with rail lines in Chicago, a seventh Class I railroad (The Kansas City Southern Railway Company [KCS]) operates by means of trackage rights, which allow KCS to operate its trains over another railroad's tracks. Thus, all seven of the North American Class I freight railroads converge in Chicago.

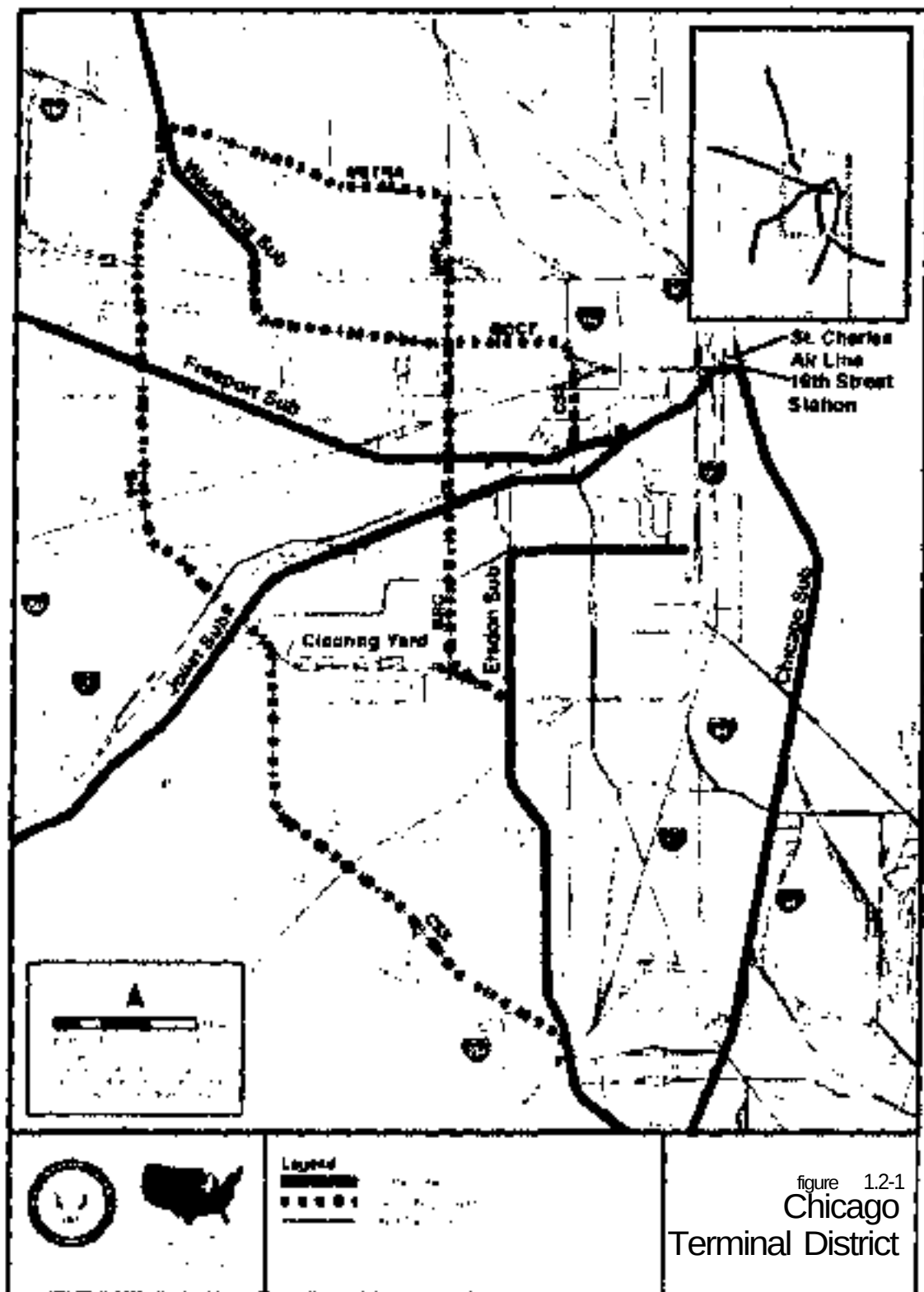
The major rail lines meet in the Chicago Terminal District, a 2,800-mile network of rail lines within the Chicago area (see Figure 1.2-1, Chicago Terminal District). The district comprises 70 yards and terminals (including 26 intermodal hubs, which provide for transfer of containerized cargo or truck trailers between two or more modes of transportation) and more than 1,950 at-grade crossings (Chicago Region Environmental and Transportation Efficiency [CREATE] 2005; Business Leaders for Transportation [BLT] 2002). The at-grade crossings include both rail/rail crossings, where rail lines intersect, and highway/rail crossings, where a rail line and a road meet at the same level.

Much of the Chicago rail network has been in place for over a century (Chicago Metropolis 2020, 2004). The rail lines of the Class I railroads, originally built to access the center of Chicago, do not facilitate movement of freight through the Chicago area because the railroads and the business leaders of Chicago did not foresee the need during the era of railroad construction (Conzen 2005). Numerous regional and switching carriers operating in Chicago connect Class I railroads and provide short-haul capacity within the Chicago Terminal District. The Class I railroads also use the rail lines of these switching carriers, by means of trackage rights, to connect from one rail line to another within the Chicago area (see Figure 1.2-1, Chicago Terminal District).

One-third of all rail freight in the United States moves to, from, or through Chicago (CREATE 2005). More than 600 freight trains operate within the Chicago Terminal District each day, transporting an average of 37,500 rail freight cars carrying about 2.5 million tons of freight (Chicago Area Transportation Study [CATS] 2000; BLT 2002).

Trains providing passenger service in the Chicago area and from Chicago to other cities also operate on the rail network within Chicago. Metra, the commuter rail division of the Regional Transportation Authority of Northeast Illinois (RTA), provides commuter service on its own rail lines and also has trackage rights on freight railroads (Metra 2007). Metra operates 720 trains per day and provided service to 82 million passengers in 2007 (Metra 2008; Metra 2007). The Northern Indiana Commuter Transportation District (NICTD) operates 41 trains per day (NICTD 2007). The National Railroad Passenger Corporation (better known as Amtrak) provides passenger service in the Chicago area by means of trackage rights granted by Class I railroads (BNSF, CN, and NS) and by Metra. In 2002, Amtrak served more than two million intercity passengers traveling to or from Chicago (CREATE 2005). Currently, Amtrak operates about 78 trains per day in the Chicago area (Amtrak 2008).

Figure 1.2-1. Chicago Terminal District



Metra's rail lines are intertwined with Class I freight rail lines through a series of parallel tracks, trackage rights granted to Metra on freight rail lines, and dozens of rail/rail at-grade crossings. Freight trains use many of the same tracks and critical junctions as the Metra trains. During each weekday rush hour, freight movements are substantially curtailed while Metra and Amtrak passenger trains take priority (Ryan 2007). The large volume of freight and passenger trains moving on these rail lines (more than 1,400 trains per day) and the use of the same rail lines by multiple rail companies result in delays as trains wait to cross other rail segments (Illinois Department of Transportation [IDOT] 2006; BLT 2002).

Delays also occur as Class I railroads wait to use switching rail lines and yards within the Chicago Terminal District. Because of rail traffic congestion, a CN freight train can take more than 24 hours to travel through an area about 30 miles in length, from near O'Hare International Airport to near Blue Island, Illinois (CN 2008a). Both freight and passenger train traffic is forecast to increase considerably within the Chicago Terminal District, further exacerbating the congestion and delays (BLT 2002).

1.2.2 The Applicants

Canadian National Railway Company incorporated in 1919 as one of Canada's two transcontinental railroads. Today, together with its subsidiary Grand Trunk Corporation, it spans Canada and the central United States from the Atlantic and Pacific oceans to the Gulf of Mexico. In Canada, CN's rail lines extend from Halifax, Nova Scotia, to Vancouver and Prince Rupert, British Columbia. In the United States, CN extends from Chicago to Port Huron, Michigan; International Falls, Minnesota; and New Orleans, Louisiana. CN serves the ports of Vancouver and Prince Rupert; Halifax; Montreal, Quebec; New Orleans; and Mobile, Alabama. CN also serves the key cities of Toronto, Ontario; Buffalo, New York; Chicago; Detroit, Michigan; Duluth, Minnesota; Superior and Green Bay, Wisconsin; Minneapolis/St. Paul, Minnesota; Memphis, Tennessee; St. Louis, Missouri; and Jackson, Mississippi. In addition, CN has connections with other rail carriers to other points in North America. CN is part of the North American Free Trade Agreement (NAFTA) rail network, offering access to Kansas City Southern de Mexico Railroad, S.A. de C.V. through a marketing alliance with KCS (CN 2008b).

CN owns and operates five rail lines that converge in Chicago (see Figure 1.1-1, Project Vicinity, above, and Section 1.4.1, Communities and Land Use near the CN Rail Lines, for more information on these rail lines);

- The "Waukesha Subdivision approaches Chicago from the north.
- » The Freeport Subdivision approaches Chicago from the west.
- * The Joliet Subdivision approaches Chicago from the southwest (from Joliet).
- * The Chicago Subdivision approaches Chicago from the south.
- The Elsdon Subdivision approaches Chicago from the southeast.

CN operates three major terminals in Chicago: Glenn Yard, Hawthorne Yard, and Markham Yard (an intermodal hub) (see Figure 1.2-2, Yard Locations). In addition, CN has smaller terminals, also located within the EJ&E arc, and uses the Belt Railway Company of Chicago (BRC) Clearing Yard for rail car switching. Chicago is a major CN junction for trains shipping freight from the Gulf Coast to eastern or western Canada; about two-thirds of the CN trains operating in the Chicago area are en route to other cities (Applicants 2007). Most of these trains must travel into Chicago for classification and switching at CN yards. To move from one CN rail line to another, CN trains must travel on other rail lines, primarily those of BRC, Baltimore and Ohio Chicago Terminal Railroad (BOCT), CSX, and Indiana Harbor Belt Railroad (IHB), and on segments of the EJ&E rail line (see Figure 1.2-1, Chicago Terminal District, above).

1.2.3 Elgin, Joliet and Eastern Railway Company

EJ&E is a Class II railroad that is a wholly owned indirect subsidiary of United States Steel Corporation (USS), a noncarrier. USS owns all of the issued and outstanding stock of Transtar, Inc., a noncarrier holding company, which owns all of the issued and outstanding stock of seven common carrier railroads, including EJ&E.

EJ&E operates on slightly more than 198 miles of track in northeastern Illinois and northwestern Indiana. The EJ&E rail line, popularly known as "Chicago's Outer Belt" or "the J," consists primarily of a 120-mile arc of mainline track around Chicago, as described in Section I.I, Introduction. The EJ&E rail line also includes double track and branch lines (see Section 2.1.3, EJ&E System, for further information about the EJ&E main line and branch lines). EJ&E has the following three main yards (see Figure 1.2-2, Yard Locations, above).

- Kirk Yard, an automated classification facility at Gary
- East Joliet Yard, a large flat-switching yard at Joliet, used primarily for rail car storage
- Whiting Yard, a small industrial support yard at Whiting, Indiana

EJ&E provides rail service to approximately 100 customers, including steel mills, coal utilities, plastics and chemical producers, steel processors, distribution centers, and scrap processors. In addition to operating local trains in the Chicago and northwest Indiana region, EJ&E connects customers to Class I rail lines. Inter-line rail connections with all major railroads entering Chicago give EJ&E customers access to the entire North American rail system. The rail connections include those with BNSF, CN, CPR, Chicago South Shore & South Bend Railroad (CSSB), CSX, Iowa Interstate Railroad (IAIS), NS, and UP.

1.3 Purpose and Need

The Applicants give three primary purposes for seeking to acquire control of the EJ&E rail assets (FR 2007; Applicants 2007);

- To improve the Applicants' operations in and beyond the Chicago area by providing CN with a continuous rail route around Chicago, under CN's ownership, that would connect the five CN rail lines radiating from Chicago.
- To make EJ&E's Kirk Yard, as well as smaller facilities at Joliet and Whiting, available to the Applicants, thus enabling them to consolidate car classification work at Kirk Yard and East Joliet Yard and to reduce the use of the BRC Clearing Yard.
- To enable the CN system to benefit from an important supply line provided by EJ&E for North American steel, chemical, and petrochemical industries, as well as for Chicago-area utilities and others, thereby allowing the Applicants to develop closer and more extensive relationships with companies in and serving those industries.

According to the Applicants, the availability of a continuous CN route around Chicago and connection of the five CN rail lines radiating from Chicago would greatly improve the fluidity of intermodal and other CN traffic that must move into, from, or through Chicago (Applicants 2007). The Applicants maintain that the Proposed Action, if approved, would result in more efficient rail traffic flow by shifting much of CN's rail traffic in the Chicago Terminal District to the EJ&E rail line and reducing CN's use of congested switching rail lines to connect its rail lines. The Applicants state that shifting a large portion of the CN rail traffic to the EJ&E rail line would decrease the traffic density on CN, BRC, and 1HB rail lines in Chicago's urban core.

The Applicants state that trains traveling within Chicago experience delays because of the congested rail lines and the reliance on the BRC Clearing Yard for switching traffic between rail subdivisions. Most of the Class I freight railroads in Chicago use the Clearing Yard for train classification. According to the Applicants, acquisition of Kirk Yard and other EJ&E yards would permit CN to use these yards, located along the EJ&E rail line and near the edge of the congested Chicago Terminal District, to classify and switch trains passing through the Chicago area. Approval of the Proposed Action by the Board would allow trains that are traveling through the Chicago area on the EJ&E rail line and are stopping in the Chicago area for crew changes, locomotive inspections, and set-outs to do so at Kirk Yard and East Joliet Yard. The Applicants expect this to reduce the number of CN trains that, though bound for other destinations, would need to travel into Chicago. This would also reduce classification work at CN's Glenn Yard, Hawthorne Yard, and Markham Yard and at the BRC Clearing Yard.

According to the Applicants, approval of the Proposed Action would enable CN to improve service to many companies in the Chicago area, as well as to companies shipping products through the Chicago area, by reducing congestion and providing for faster movement of shipments on CN rail lines. The Applicants maintain that shippers would benefit from shortened transit times through the Chicago Terminal District.