

**BEFORE THE
SURFACE TRANSPORTATION BOARD**

GROWTH IN THE FREIGHT RAIL INDUSTRY

DOCKET NO. EP 775

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**WRITTEN TESTIMONY ON BEHALF OF CN
BY DEREK TAYLOR**

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CN's purpose is to power the economy. We do that by running an efficient, reliable, and scheduled service. We have three strategic priorities to grow our railroad.

One of CN's strategic pillars is to sustain and build service excellence. Providing reliable and efficient customer service is the foundation for growth. And operating consistently is the key to achieving success in CN's growth strategies. And that reliable, consistent service is best accomplished through scheduled rail operations.

CN's operating approach is disciplined, scheduled railroading. At CN, we call this "make the plan, run the plan, sell the plan." This operating strategy forms the foundation for efforts to grow our business, our customers, and the North American interconnected supply chains. In a nutshell, this approach to operations centers on designing and regularly updating a systemwide service plan that the operations team then adheres to. The goal is to run a more efficient and reliable network to the best of our ability, while recognizing that there will always be circumstances

outside our control that could occur at any time—such as unexpected weather disruption or network disruption—that impact our adherence to the plan on any given day. That said, our data shows that our scheduled railroading approach improves asset velocity, ensures more consistent utilization of power and crews, drives business growth initiatives, and ultimately, provides more predictable and consistent service for our customers and the economy.

The operating plan is built to optimize train speed, car velocity, and asset utilization. The Network Operations team is the plan architect. The goal is to seek to send traffic by the most efficient route, minimize handling events, and avoid “out-of-route miles” or back-hauling railcars. Under this approach, cars arrive at their destination for loading or unloading so that they can then be released for their next move. The foundation of our plan is what we call “core trains”—our scheduled intermodal and merchandise trains. Bulk trains are then slotted in around these core trains to reduce conflicts and optimize train meets. All of these features optimize capacity across the network. Terminal dwell, or the amount of time cars are in yards, is reduced. And car velocity increases, meaning that cars move more miles per day.

Once the plan has been designed, the Field Operations team steps in to execute or run the plan. Running the plan involves several steps. First, we have to run the trains on time by adhering tightly to the schedule for train starts. It is critical that every train departs on time because the train’s locomotives are expected at the next terminal to be used in another train with a new crew. In

practice, this means we are more focused on ensuring trains depart on time than on holding a train at a yard to build the longest train possible. That does not mean CN never runs long trains. Under our current operating approach, CN runs trains at siding length and there are portions of our network with sidings that can accommodate trains of between 10,000 and 12,000 feet. The difference is that such long trains are now a tool in CN's operational tool belt that we only run when it makes sense and when it is built into the plan.

Second, we have to place the right cars in the right block on the right train to maximize efficient operations at the next terminal and ensure that customers receive their cars on time. Third, we must maintain disciplined power and crew plans. Our people and equipment have to be strategically placed to keep traffic moving. Running the trains on time and maintaining disciplined power and crew plans are two sides of the same coin.

The Network Operations team is regularly refining the plan to account for changes in volume associated with market forces, our expanding and changing customer base, and in response to new technologies whether they be to enhance safety, improve efficiency, or both. Sometimes the Field Operations team determines some aspect of the plan is not working as well as it should. That might be due to operational or logistical challenges unique to a particular area, changing customer demands, change in traffic mix, or any number of other factors. When some aspect of the plan is not working well, the Network Operations team adjusts the plan accordingly. And as mentioned earlier, sometimes unforeseen

circumstances cause operations to deviate from or “get off” plan. When that happens, Network Operations revises the plan in consultation with Field Operations in a way that accounts for any disruptions that occurred.

Our success in building the plan and running the plan is in large part due to our improved integration between the Sales and Marketing and Operations personnel. In the past, these teams were somewhat siloed whereas today they communicate weekly to discuss everything from car supply and customer issues to anticipated opportunities and challenges across the network. Under this approach, instead of operations being reactive to the business that Sales and Marketing brings in, now these teams coordinate to onboard new customers and increased traffic from existing customers in a seamless way by incorporating that traffic into the plan.

Our disciplined, scheduled operating approach is supporting CN’s overall growth strategy. Strictly adhering to the scheduled train starts creates predictability and consistency across the network for our employees and customers. Train speeds improve because the service design team develops a systemwide plan that optimizes meets.

On-time train departures ensure locomotive power and crews arrive where they are next needed for another train start. A more efficient railroad similarly promotes better local service. And better local service for our existing customers helps CN earn a greater share of their business. When our customers win in their markets, we win in growing rail traffic.

CN measures local service performance using an internal metric known as Local Service Commitment Plan or LSCP. LSCP is the percentage of cars that successfully completed their Daily Operating Plan. In other words, LSCP measures whether we have delivered to the customer the right cars, on the right day, in the right switch window. In the second quarter of 2024, our LSCP performance reached an all-time high of 94%, which is up 3% since the second quarter of 2023, and up 11% since the second quarter of 2022.

When cars move more efficiently through the network, there is more capacity available on the network, which enables CN to grow rail traffic to build density. An example illustrates the impact. In January 2018, CN had 35,000 more cars on the network and delivered 11% less volume compared with Q1 of 2023, when the scheduled operating plan was first implemented, where CN delivered 6% more volumes (or rail-ton miles) with 15,000 fewer railcars on the network. And increased velocity is good for customers that own or lease their own railcar fleets. As cycle times across our network become more reliable, customers require fewer railcars to move the same amount of product, which reduces their supply chain costs.

One other noteworthy benefit of our scheduled operating model is the environmental benefits associated with more efficient operations. A disciplined, scheduled operating plan furthers CN's decarbonization goals by improving fuel efficiency with improved network fluidity and reducing unplanned train stops. We also know that customers have their own sustainability goals, and we work with

customers to achieve those goals, including by providing detailed reports of our customers' estimated greenhouse gas emissions based on all their loaded shipments as well as the emissions avoided from choosing rail over truck.

Of course, our dedicated, talented personnel are our most valuable asset. That is why another strategic priority at CN is growing our people. At CN, we understand that our scheduled operations and growth strategies are only as good and effective as the people who implement them every day through service design, operations, customer service, and so much more. CN is dedicated to attracting and developing the right talent to support our growth aspirations, embracing diversity, and reaching the next level of safety performance. Each of these factors makes CN a more attractive place to work. We are mindful of the need to attract the next generation of railroaders.

We are constantly looking for ways to improve the safety and wellbeing of our people. CN invests substantial resources in developing a talent pipeline to ensure the company always has sufficient and well-trained crews to keep trains departing on schedule. Employees receive ongoing training to advance their safety and on-the-job skills. In 2023, approximately 7,200 new hires and experienced railroaders passed through our training campuses at Homewood, Illinois and Winnipeg, Manitoba in Canada.

At CN, we are investing in our people to support long-term growth. Our employees are critical to our operations and our ability to plan for the future. CN employs over 18,000 personnel, nearly 7,000 of which are located in the United

States. To attract and retain the best possible talent, CN offers a competitive compensation portfolio to its employees that includes base salary, benefits, and retirement plans. Those benefits include scheduled days off for all U.S. employees.

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Thank you for the opportunity to share how CN's disciplined, scheduled operating model facilitates long-term, sustainable growth.

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**WRITTEN TESTIMONY ON BEHALF OF CN
BY PATRICK LORTIE**

At CN, we are guided by our three-pronged corporate strategy: build and sustain service excellence, grow our business, grow our people. My testimony today will focus on that second prong, how CN is growing volumes in a disciplined and sustainable way.

There are three primary ways we are meeting our goal of growing volumes in a disciplined and sustainable way. First, CN facilitates growth by investing in our network, people, and equipment to support our customers' supply chains. Second, CN pursues opportunities to collaborate with other railroads to provide new, superior interline service offerings to spur traffic growth and convert goods moving by truck to the rail network. And third, CN is constantly innovating to improve the customer service experience. Each of these growth strategies are centered around the best way to grow business, which is to serve our customers well. By providing reliable, consistent service to our customers and improving the customer service experience, we are advancing our growth strategy to strengthen supply chains, expand service offerings, and reduce supply chain costs.

Let's start with how CN facilitates growth by investing in our network. One of the prime ways to support growth in rail traffic is our network. CN's North American network consists of approximately 20,000 route-miles of track and connects the Atlantic, Pacific, and Gulf Coasts and the Great Lakes through seven major port connections. This expansive network allows us to offer customers multiple single-line service options and access to domestic and international markets that they need to provide optionality and grow their businesses. Two specific types of network investments come to mind.

The first type of network investment is expanding the number of customer-facing facilities across our network. CN invests in new and upgrades existing facilities and infrastructure to support our current customers, attract new customers who may not have rail service, and convert traffic moving via trucks to rail. For example, across our network today, CN has acquired or constructed 31 strategically located transload facilities, including 18 bulk distribution facilities for liquid and dry bulk transloading. CN also offers customers access to 18 automotive facilities across our network. These facilities help us attract new business to our network and compete with trucks. And we continue to look for new opportunities to construct or acquire facilities that will help us expand our customer base by making rail more accessible.

One recent example that comes to mind is our new facility in Flat Rock, Michigan. Earlier this year, we announced the opening of this new, 20,000-square foot transload logistics facility. This facility specializes in steel coils by efficiently

handling covered gondolas and providing 10 acres of storage space for coils and other steel products. Facilities like this one allow CN to compete for traffic that ordinarily moves by truck. The Flat Rock facility is strategically located for rail and truck transfer and is equipped with a 50-ton overhead crane. In fact, the facility's first customer is converting a large part of its traffic from truck to rail. The Flat Rock location is just one of many projects that CN is pursuing. For example, another new intermodal terminal is planned for the Chicago area to service demand for consumer goods in the Midwest and convert long-haul trucks off of the highway.

Another way to grow CN's rail network is through acquisitions. The proposed combination of CN and Iowa Northern is an excellent example of a strategic acquisition that supports growth. If approved, customers on both railroads would benefit from access to new, more efficient, single-line service offerings. Single-line service helps customers reach new markets. For example, ethanol and renewable fuels manufacturers in Iowa would have greater access to storage and export facilities and high-demand markets, which in turn would create more sales optionality. Grain customers would benefit from such single-line service offerings, particularly as harvest season is starting. This transaction is supported by customers, government officials, and rail labor, and we look forward to a Board decision on this exciting growth opportunity.

CN also facilitates growth by investing in our network to support supply chains as customers grow and invest in their own facilities. Nearly half of our growth comes from customer-specific projects that locate on CN or expand their

facilities or product offering. CN recently worked with one customer to support the customer's new production of high-volume electric vehicles, which in turn helps CN move automobiles efficiently out of Michigan. CN has also supported track and yard expansion and rail build-in projects at renewable energy plants in Iowa and Louisiana.

Finally, CN facilitates growth by investing in equipment. CN has made significant fleet investments over the last several years, combining its commitment to building a sustainable future with our long-term strategy of growing the business. We are especially excited about the 110 remanufactured locomotives CN has ordered over the past several years, which will improve our operational reliability and reduce our carbon footprint. The improvements to these locomotives include enhanced technology, a 15% decrease in fuel consumption per gross ton mile, an expected 40% increase in reliability, and an increase in pulling power of up to 55%. More efficient and sustainable locomotives translate into reliable service and better customer service.

On the railcar side, CN has purchased nearly 4,500 new railcars and added more than 10,250 leased railcars to CN's fleet since 2021. These railcar acquisitions aim to support growth opportunities. We have invested in approximately 1,600 boxcars since 2022, which includes the standard 60-foot boxcars as well as 50-foot boxcars to support older mills. We are renewing our hopper car fleet to ensure we have the capacity to move grain safely and efficiently. CN purchased 750 new hopper cars this year, and a total of 4,250 new hopper cars since 2018. These new

railcar acquisitions and leases help CN meet customer demand and replace older railcars to further service quality and safety.

Today, CN maintains a fleet of more than 45,000 owned and lease railcars. As part of our overall customer service and growth strategy, CN has a buffer in the railcar fleet to account for seasonal changes in volume. The purpose of this buffer is to ensure we have the resources necessary for customer demand and remain flexible in our operations.

You have heard me talk a lot about CN's investments in growth. Investment in our network. Investment in equipment. But now let me illustrate for you how CN strategically uses all of these investments together to support specific supply chains to support growth. To support our iron ore customers and the steel supply chain, CN has made a number of strategic investments to grow that business.

Iron ore moves from mines in Minnesota and Michigan across CN's network to manufacturing plants in the midwestern United States. To facilitate more efficient movements of iron ore, CN put into service its new \$15 million loop track at our taconite staging terminal in Two Harbors, Minnesota. Prior to construction of the loop track, inbound trains needed to be split in half for unloading, and then split again to be set for outbound movement, which involved significant switching operations and related delays. With the new loop track in place, trains now unload as a unit, and there is no additional switching required. Practically speaking, this means car unloading times now average 2 hours, down from 4 to 5 hours prior to the loop track's installation.

Earlier this year, CN announced that it is acquiring 600 new iron ore jennies—specialized hopper cars built for transporting heavy loads of iron ore—to enhance the performance and durability of CN’s fleet and give customers confidence in our ability to handle their business. These specialized railcars will help our customers move iron ore from the mines to domestic manufacturing facilities to the Great Lakes.

These strategic supply chain investments do not happen overnight. CN has been making strategic investments to support growth in this supply chain over a period of years. Our investment in Hallett Dock highlights this point. In 2020, CN made an important investment to acquire and operate Hallett Dock Number 5, a private rail-water dock facility in Duluth, Minnesota that was for sale and at risk of conversion to non-transportation uses. CN purchased the facility. CN’s investment preserved this important asset for rail-water transfer, handling, storage and other capabilities for customers transporting bulk commodities in the iron ore supply chain. Hallett Dock is now a critical component of CN’s network investments to support and grow our iron ore business. Preserving this capacity was possible because of the STB’s approval and recognition of the importance of the dock asset to the iron ore supply chain.

Next, I want to focus on the efforts CN is making to develop and maintain new strategic offerings with other rail carriers to provide new interline service offerings and to grow rail traffic that benefits customers. My team and I have worked with Class I railroads and shortline railroads to explore opportunities to

collaborate to create new interline service offerings. CN recognizes that such interline collaboration across the supply chain creates new service offerings that are cost-effective transportation so our customers can access new or additional markets. We have found such collaboration to be particularly helpful in growing our intermodal business.

Our Falcon Premium intermodal service is an excellent example. Launched in 2023, the Falcon Premium is a collaboration between CN, Union Pacific, and Mexican carrier Ferromex to offer the fastest, most direct route to move intermodal from Canada to Mexico via seamless interconnection in Chicago. This interline service offering leverages each carrier's unique network strengths to deliver a superior service to customers—CN's time-saving Chicago bypass loop, Union Pacific's superior route from Eagle Pass to Chicago, and Ferromex's leading transit times between Silao, Mexico and Eagle Pass, Texas.

CN and Norfolk Southern have also launched an all-rail domestic intermodal service offering. This new service links CN-served Canadian markets with Norfolk Southern-served Atlanta. Atlanta is in the fast-growing manufacturing and consumer base in the Southeastern United States. The program utilizes new intermodal steel wheel interchanges in Detroit and Chicago to seamlessly operate like a single-line intermodal product to more effectively convert long-haul truck traffic along this route to rail.

Finally, I want to highlight the important work CN is pursuing with our short line partners. CN continues to support the growth of interline opportunities

with our short line partners, who serve as an invaluable extension of our network. As a reflection of the important role short line partners play in supporting CN's business, we established a Network Strategy and Interline team approximately a year ago. This team is dedicated to fostering collaboration with short lines and expanding opportunities to grow our businesses together. The Network Strategy and Interline team holds regular meetings with key short line partners and works closely with the Operations and Sales & Marketing teams to explore all existing and new business opportunities. These efforts have resulted in volume growth of 9.5% from 2022 to 2023.

Of course, CN's most important partnership for growing our business is with our customers. We are constantly looking for ways to improve our customers' experience shipping by rail. Most recently, CN launched our "ease of doing business" initiative. We want to be a railroad that customers are drawn to because placing orders, tracking shipments, and customer service are straightforward and accessible because our tools are useful. To that end, CN has identified specific areas to improve the customer experience. We have been working on an integrated carload and shipment tracking tool with a modern user interface. We launched a new Shipment Tracking tool on our CN One eBusiness platform that allows customers to use a mobile app to trace intermodal and carload shipments on CN's network in real time. Customers can search, filter, and share critical shipping information anytime, anywhere, and use intuitive map views to follow the progress of the shipment. CN is currently beta testing a new order management tool for

intermodal customers. We also use APIs, or Application Programming Interfaces, to allow customers to pull information they need directly into their systems such as bill of lading information, proof of delivery, shipment status, invoices, estimated time of arrival, and much more. In short, CN is constantly innovating to improve the customer service experience.

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CN is dedicated to pursuing long-term strategies for growing traffic volumes on our network and powering the economy. CN facilitates growth by investing in our network, in our equipment, and in our people. CN pursues strategic collaborations with other railroads to provide superior service offerings, customer service, and to spur traffic growth. And CN is constantly innovating to improve the customer service experience. CN is strategizing for the future and working to promote growth in a disciplined and sustainable way.