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Via E-Filing

Cynthia T. Brown
Chief, Section of Administration
Office of Proceedings
Surface Transportation Board
395 E Street S.W.
Washington, D.C. 20423

Re: Docket No. EP 775, *Growth in the Freight Rail Industry*

Dear Ms. Brown:

The U.S. rail operating subsidiaries of Canadian National Railway Company (collectively, "CN") respectfully request that the attached written testimony of Derek Taylor and Patrick Lortie, along with CN's presentation at the hearing, be placed in the public docket.

Please do not hesitate to contact me if you have any questions.

Respectfully submitted,

/s/ Christopher K. Diamond

Christopher K. Diamond

Enclosures

**BEFORE THE
SURFACE TRANSPORTATION BOARD**

GROWTH IN THE FREIGHT RAIL INDUSTRY

DOCKET NO. EP 775

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

Good afternoon. My name is Derek Taylor. I am Executive Vice President and Chief Field Operations Officer at CN. I'm responsible for running CN's operational plan network wide. I have been with CN since 2000. Relevant to today's hearing, I served as Vice-President Transportation, for the Southern Region, which covers the entire U.S. portion of our network. And in 2022, I also served as Vice-President, Operational Excellence, and was responsible for driving continuous improvement across CN's key operating metrics.

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 those strategic priorities is to sustain and build service excellence. Providing reliable and efficient customer service is the foundation for growth. Operating consistently is the key to achieving success in CN's growth strategies. 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.

One such disruption was Hurricane Francine, which made landfall on the Gulf Coast last week and, as of yesterday, service has resumed on all of our affected lines. This is the kind of unforeseen event that can impact our adherence to the operating plan, but we work diligently to plan for such impacts and communicate regularly with our customers about those.

That said, our data shows that our scheduled railroading approach improves asset velocity, ensures more consistent utilization of power and crews, drives business growth opportunities, 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 send traffic by the most efficient route, minimize handling events, and avoid "out-of-route

miles” or back-hauling of railcars. Under this approach, the cars arrive at their destination for loading or unloading so that they can then be released for their next move. As we say, “the next empty is the next load.” The foundation of our plan is what we call “core trains”—that is our scheduled intermodal and merchandise trains across the entire network. Bulk trains are then slotted in around these core trains to reduce conflicts as much as optimal and to optimize those 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 executes or runs the plan. Running the plan involves several steps. First, we have to run the trains on time by adhering very tightly to the schedule for the 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 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 and 12,000 feet very effectively day in and day out. The difference is that such long trains are now a tool in CN’s operational belt that we only run when it makes sense and was built into the plan and fits on our network.

Second, we have to place the right cars in the right block and 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 locomotives and equipment have to be strategically placed to keep traffic moving. Running the trains on time and maintaining that disciplined plan between 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 or improve efficiency. Sometimes the Field Operations team determines some aspect of the plan is not working as well as it should. That does happen from time to time. That might be due to operational or logistical challenges unique to a particular area or corridor, changing customer demands, a change in traffic mix, or any number of other factors. The Network Operations team then adjusts the plan accordingly in partnership with us. And as I 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 the Field Operations team in a way that accounts for any disruptions that have occurred to allow for a quick recoverability.

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 teams. In the past, these two 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 entire 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 overall network plan.

Our disciplined, scheduled operating approach is supporting CN's overall growth strategy. Strictly adhering to the scheduled train starts across the network 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 for the network, not one region or division.

On-time train departures ensure locomotive power and crews arrive where they are needed for the next 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.

When cars move more efficiently through the network, there is more available capacity on the network, which enables CN to grow rail traffic to build density. A great 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, that's when the scheduled operating plan was first implemented, where CN delivered 6% more volumes (or rail-ton miles) with 15,000 fewer railcars across the

network. The 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. CN's car velocity, which measures how many miles rail cars move per day, in Q1 2024 was the second highest since 2017 with Q1 2023 being the highest at more than 220 miles per day.

Very important to us is our customer centric metrics. CN measures local service performance using an internal metric known as Local Service Commitment Plan or LSCP for short. 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, and 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. We believe service like this is a key catalyst to enable future growth.

Another metric that reflects the positive impact of CN's operating model is revenue ton miles or RTMs. RTMs reflect the amount of work we are doing for our customers by measuring the amount of freight hauled in revenue service per mile. Our RTMs have increased 3% year to date and approximately 8% since 2015.

One other noteworthy benefit of our scheduled operating model is the environmental benefits associated with more efficient operations. A disciplined, scheduled operating plan improves fuel efficiency with improved network fluidity

and reduced unplanned train stops. We also work with customers to achieve their sustainability 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. 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 and 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. We invest substantial resources in developing a talent pipeline to ensure the company always has sufficient and well-trained crews to keep trains departing on time. Employees receive ongoing training to advance their safety and on-the-job skills. In 2023, for example, approximately 7,200 new hires and experienced railroaders passed through our training campuses at Homewood, Illinois and Winnipeg, Manitoba.

CN employs over 18,000 personnel, of which nearly 7,000 are located in the United States. And 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 also scheduled days off for all U.S. employees.

Thank you for your time.

**BEFORE THE
SURFACE TRANSPORTATION BOARD**

GROWTH IN THE FREIGHT RAIL INDUSTRY

DOCKET NO. EP 775

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

Good afternoon. My name is Patrick Lortie. I am Senior Vice-President and Chief Strategy Officer at CN. In this capacity, I am responsible for the development and implementation of CN's corporate strategy, which includes our network strategies and relationships with other railroads. Along with Remi Lalonde, our Chief Commercial Officer, I am also responsible for overseeing the development and implementation of our growth strategies. Before joining CN, I led the global Transportation Practice at Oliver Wyman, which includes all of our rail activities and clients. I had long aspired to become a railroader and was inspired by CN's mission to power the economy. So when the opportunity to join the CN family presented itself, I took it.

I am honored to represent the great people of CN and to participate in this hearing to provide the Board with information about CN's proven approach to growth.

At CN, we have three strategic priorities, as Derek mentioned: build and sustain service excellence, grow our business, and grow our people. You just heard

Derek speak about service excellence and growing our people. My testimony today will focus on that second of our priorities: grow the business.

There are three primary ways we are meeting our goal of growing volumes. First, CN grows by winning more business from our existing customers by investing in our network, people, and equipment. Second, CN pursues opportunities to extend our reach and collaborate with other railroads to provide new, superior interline service to our customers. And third, CN is constantly innovating to improve the customer service experience, which in turn helps attract new customers and convert goods moving by truck to rail.

Each of these growth strategies are centered around the best way to grow business, which is to serve our customers well. By providing reliable and consistent service, and improving the customer service experience, we are strengthening supply chains, supporting the environment, and reducing transportation costs for all involved.

Let's start with how CN grows with its customers. CN's North American network consists of approximately 20,000 route-miles of track and connects the Atlantic, Pacific, Gulf Coasts and the Great Lakes through seven major port connections. This expansive network allows us to offer our customers multiple single-line service options and access to domestic and international markets. I will give you two examples of network investments.

The first type of network investment is expanding the number of customer-facing facilities. CN has 31 transload facilities and 18 automotive facilities across our network, as shown on the slide.

Our new facility in Flat Rock, Michigan, is a great example of how these facilities can help attract new business to our network. This 20,000-square-foot transload logistics facility in Flat Rock specializes in steel coils and is strategically located for rail and truck transfer. Because of this, our main customer is now 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. Another large new intermodal hub is planned for the Chicago area to service demand for consumer goods in the Midwest.

CN also facilitates growth by investing in our network to support our customers as they grow. Nearly half of our growth comes from customer-specific projects located on CN. For instance, we have supported track and yard expansion projects at renewable energy plants in Iowa and Louisiana, among many others.

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 its strategy of growing the business. So we are excited about the 110 locomotives CN has modernized in recent years. Those remanufactured locomotives will improve our operational reliability and reduce our carbon footprint.

Today, CN also maintains a fleet of more than 45,000 owned and leased railcars. That fleet includes nearly 15,000 new railcars acquired since 2021. Our

recent railcar investments include new hopper cars and both 50- and 60-foot boxcars. These new railcar acquisitions and leases help CN meet customer demand and replace older railcars to enhance service quality and safety. You will be happy to know that as part of our overall customer service and growth strategy, CN maintains a buffer in its railcar fleet to account for seasonal changes in volume and other demand variations. 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 about CN's investments: Investment in facilities. Investment in our network. Investment in equipment. But now let me illustrate how it all ties together. Let's take our iron ore customers and the steel supply chain as an example.

Iron ore moves from mines in Minnesota and Michigan across CN's network to manufacturing plants in the Midwest of the United States. To facilitate more efficient movements of iron ore, CN put into service its new \$15 million loop track at our terminal in Two Harbors, Minnesota. Prior to construction of this 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 as you may imagine, costs, and delays. With the new loop track in place, trains now unload as a unit, and there is no additional switching required. So, car unloading times now average 2 hours, down from 4 to 5 hours prior to the loop track's installation.

From an equipment standpoint, CN announced that it is acquiring 600 new iron ore jennies—those are specialized hopper cars built for transporting heavy loads of iron ore from the mines to domestic manufacturing facilities all the way to the Great Lakes. Our Iron range operations are also beneficiaries of the investments in the modernization of our CN locomotive fleet to make them more carbon efficient and reliable.

Next, I want to focus on the efforts CN is making to collaborate with other rail carriers to provide new interline service. My team and I work on this every day because we recognize at CN that such interline collaboration is key because supply chains are not constrained by individual railroad networks.

Our Falcon Premium intermodal service is an excellent example. It was launched in 2023. The Falcon Premium is a collaboration between CN, Union Pacific, and Grupo Mexico to offer the fastest, most direct route, and to move intermodal from Canada to Mexico and vice versa. This interline service offering leverages each carrier's unique strengths to deliver a superior service to customers.

We have also partnered with Norfolk Southern to launch an all-rail domestic intermodal service offering. This new service links CN-served Canadian destinations with Norfolk Southern-served Atlanta. The program utilizes an intermodal steel wheel interchange in Chicago to seamlessly operate like a single line and more effectively convert long-haul trucks to rail along this important corridor.

I also want to highlight the work CN is pursuing with our short line partners. They serve as an invaluable extension of our network. My team is dedicated to fostering collaboration with short lines and expanding opportunities to grow our businesses together. These efforts have resulted in volume growth with short lines of nearly 10% between 2022 and 2023.

Finally, one other way we grow CN's rail network, when the opportunity presents itself, is through acquisitions. The proposed combination of CN and Iowa Northern is an excellent example of a strategic acquisition that supports growth. If approved, the customers on both railroads would benefit from access to new, more efficient, single-line service offerings. For example, ethanol and renewable fuel manufacturers in Iowa would have greater access to storage, to export facilities and to high-demand markets. Grain customers would also benefit, 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 for CN.

Of course, CN's most important partnership for growing our business is with our customers. We are constantly looking for ways to improve the customers' experience shipping by rail, and to help attract new customers. Most recently, CN launched an "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. To that end, CN has identified specific areas to improve the customer experience. One of these initiatives is an integrated

carload and shipment tracking tool with a modern user interface. The CN One eBusiness platform allows customers to use a mobile app to trace intermodal and carload shipments on CN's network in real time. Once fully rolled-out, customers will be able to search, filter, and share critical shipping information anytime, anywhere, and use intuitive maps to follow the progress of their shipments. We also use APIs, or Application Programming Interfaces, to allow customers and shortlines to pull information that 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.

* * *

I have shared a lot of information with you today about CN's long-term strategies for growing volumes on our network and powering the economy. There are three key messages to remember: We are committed to growth. We are investing in our network, technology and equipment. And we are collaborating with other railroads to expand our reach and draw new customers to rail.

Thank you for the opportunity. We would be happy to take any questions the Board might have.



CN Testimony

Hearing on Growth in the Freight Rail
Industry, Docket No. EP 775

September 16, 2024
Surface Transportation Board
Washington D.C.



Our Purpose is to Power the Economy

Derek Taylor

Executive Vice-President and Chief
Field Operating Officer



CN's Three Strategic Pillars



**Sustain and build
service excellence**



Grow our business



Grow our people

CN powers the economy through these three pillars

How CN Runs the Plan



CN follows scheduled railroading to achieve growth

CN's Car Velocity (Car Miles Per Day)



Please note that the methodology for calculating Car Velocity was updated in 2021 to reflect more complete information. Historical Car Velocity figures from 2019-2020 have been adjusted to conform to the current methodology.

CN's car velocity in Q1 2023 and Q1 2024 were the highest since 2017

CN's Local Service Commitment Plan



LSCP measures customer deliveries:

- In the right cars
- On the right day
- In the right switch window



All-time LSCP high of 94% in Q2 2024

- Up 3% since Q2 2023
- Up 11% since Q2 2022

CN is delivering consistent, reliable service for our customers

Growing Our Business

Patrick Lortie

Senior Vice-President and Chief
Strategy Officer



CN's Three Strategic Pillars



**Sustain and build
service excellence**



Grow our business



Grow our people

CN powers the economy through these three pillars.

CN's North American Network Spans Three Coasts



2023 KEY STATISTICS⁽¹⁾

18,800

ROUTE MILES

5.4M

CARLOADS

>300M

TONS OF CARGO

\$3.1B

CAPITAL INVESTMENTS⁽²⁾

\$52.7B

ASSETS

~25,000

EMPLOYEES (end of period)

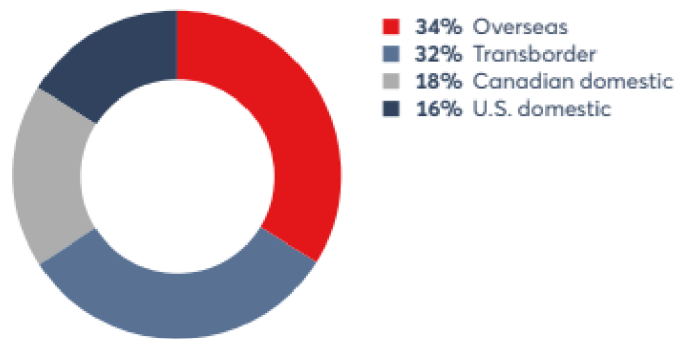
(1) As at or for the year ending December 31, 2023
(2) Net of amounts reimbursed by customers



CN Has Broad Geographic Exposure

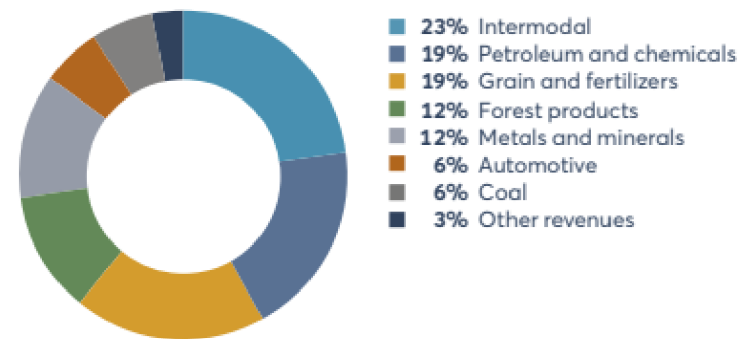
2023 REVENUES BY GEOGRAPHIC FLOW

(% of freight revenues)



2023 REVENUES BY COMMODITY GROUP

(% of total revenues)



CN's freight revenues are derived from seven main commodity groups representing a diversified and balanced portfolio of goods transported between a wide range of origins and destinations. This product and geographic diversity better position the Company to face economic fluctuations and enhance its potential for growth opportunities.

CN has a balanced and diverse portfolio of commodities

CN is Investing in Railcars

Since 2021

- 4,500 new railcars purchased
- 10,250 leased railcars added

Since 2022

- 1,600 boxcars acquired of two different types:
 - standard 60-foot boxcars
 - 50-foot boxcars to support pulp, paper, and metals customers

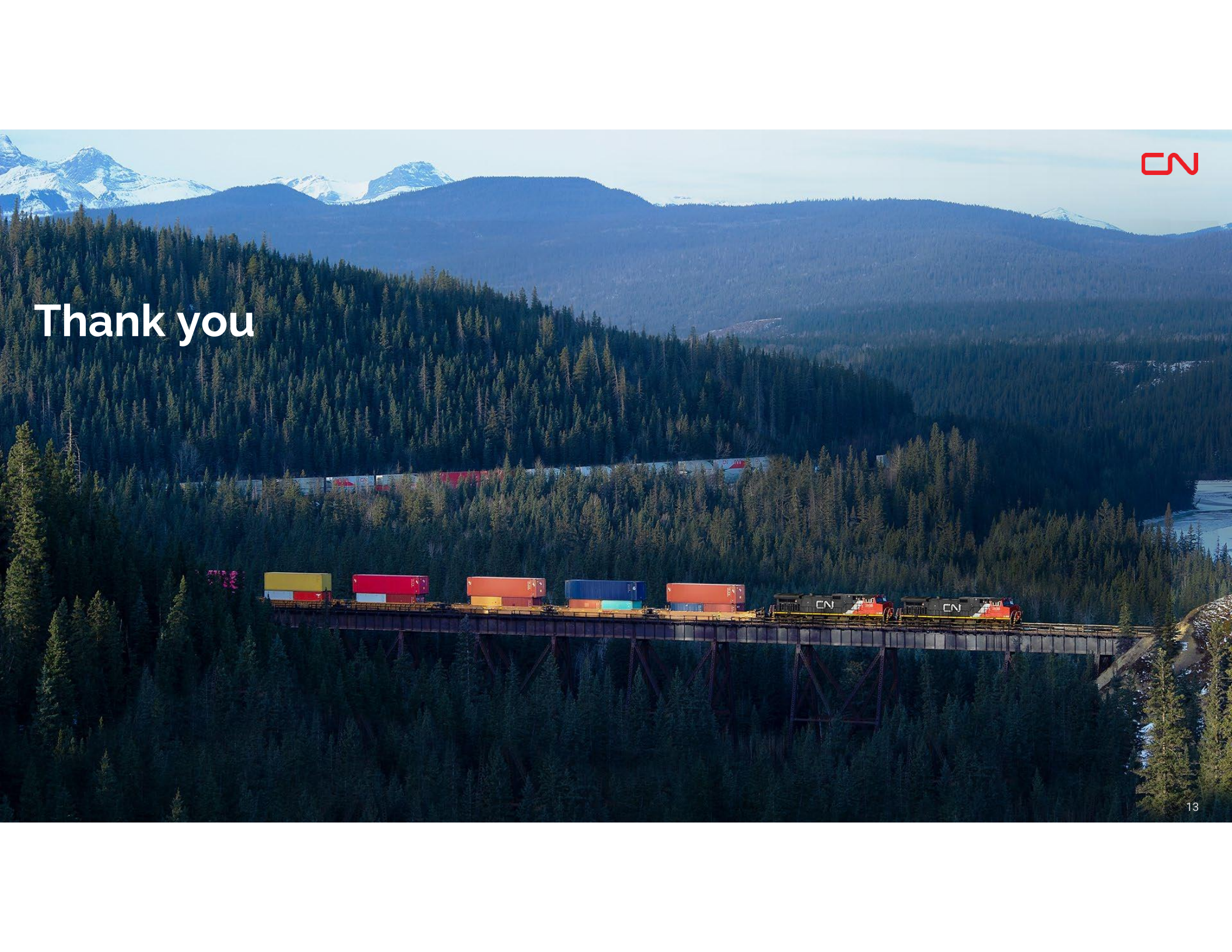
Since 2018

- 4,250 new hopper cars purchased

CN's Efforts to Grow Intermodal With Other Railroads



CN is extending its intermodal reach by working with other railroads to take trucks off the highway



Thank you