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August 3, 2015

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

Re: Railroad Service Outlook – Fall Peak 2015

Dear Mr. Chairman:

Thank you very much for your letter of July 13, 2015 asking for information about CN's ability to meet the expected rail service demands of the coming "Fall Peak" period. We appreciate the opportunity to provide this information to you and the Board. CN shares the STB's commitment to insuring railroad customers are afforded safe, reliable and dependable service throughout the year as markets evolve.

Today, thanks to a combination of external factors and internal decisions, CN is a railroad at the ready.

As the Board is well aware, the economy in the United States continues its gradual recovery at a slower than expected pace. Led by decreases in commodity prices such as crude oil, market demands were not as great as we originally expected they would be in 2015. CN had prepared for an overall increase in volumes that did not materialize. For example, in the second quarter, we had planned for a modest increase in total carloads when, in fact, carloads for the quarter declined slightly.

CN responded swiftly to this slower growth environment by recalibrating resources to ensure efficiency throughout the network. By the same token, CN will be ready to address increases in traffic associated with the Fall Peak.

"Expectations For Any Seasonal or Other Projected Peaks...and the Actions Your Railroad Will Take..."

CN has been increasing its fleet of new locomotives on an ongoing basis. Today we have close to 200 locomotives in ready storage, prepared to respond when volumes return. An additional 39 new locomotives are scheduled to be delivered from the manufacturer before the Fall Peak period begins. Several thousand of our railcars are also now in storage awaiting increased volumes.

CN has also been increasing its workforce in the U.S. to handle the anticipated recovery. We completed training and qualification with a number of new train crew members in the 4th quarter of 2014 and the 1st quarter of 2015. The result today is sufficient crew manpower to address increased volumes.

CN has the track capacity necessary for our fall peak volumes. CN has been investing in the U.S. network on an ongoing basis, including a multi-billion dollar program to improve our capacity to Chicago from Western Canada.

“...any Geographic Areas and/or Commodities for Which You Anticipate Particular Challenges...”

As we look toward the coming months, we see a manageable increase in market demand.

Growth in intermodal deliveries (which represent approximately a quarter of our volume) continues to be tied to the international container market and is supported by CN’s door-to-door supply chain capabilities. CN also continues to prepare for capacity enhancements resulting from the much-anticipated opening of the Panama Canal expansion through enhanced relationships with the ports of Mobile, Alabama and New Orleans, Louisiana.

In merchandise shipments (which represents approximately half of our volume), CN expects a steady outlook for automotive deliveries, thanks to investments in our railcar fleet and our autoport capacities. We expect to see a small increase in lumber traffic to the U.S., compared to last year, in line with housing starts in the 5-10% range. Shipments of frac sand should also increase in the fall. This will be in line with increased petroleum exploration in the U.S. and is only expected to increase in the 5% area (though less than our 2014 business).

Finally, in bulk shipments (the remaining quarter of our business), coal markets continue their decline, though the demand for fertilizers and grain remains sustained. The size of the upcoming U.S. harvest remains uncertain but looks positive at this time.

“A Summary of Investments in Freight Service and Capacity Improvements...”

Despite a slower than expected market, CN is continuing its 2015 plan to invest more than US\$2 billion in capital programs, including rail infrastructure maintenance and improvements that will add new capacity, equipment and technology to raise network safety and efficiency, and other measures that will improve our service levels and support future growth.

CN is planning to spend over US\$1 billion on track infrastructure through the year. This will include the replacement of rail, ties and other track materials, bridge improvements, as well as various branch-line upgrades. Such investments allow CN to improve the network and are part of a multi-year program aimed at maintaining a high level of safety and efficiency while simultaneously helping CN's customers grow.

Within its track infrastructure spending, CN is allocating funds to upgrade its feeder network. This investment is part of the approximately US\$400 million program announced earlier this year to upgrade branch lines that are experiencing rising volumes of traffic.

CN will also spend about US\$600 million in 2015 on growth and productivity initiatives such as yard improvements, intermodal terminals, transload and distribution centers and information technology.

CN is working closely with the appropriate permitting agencies to ensure that as many of these projects as possible move forward, while complying with all federal and state environmental regulations.

“A Detailed Discussion of Efforts to Improve Fluidity Through and Around the Chicago Gateway...”

As the Board is well aware, the acquisition of the EJ&E has played a fundamental role in the growth of CN and its ability to serve the U.S. market. With the EJ&E integration – and its 198 miles of track that encircle the city of Chicago – the Chicagoland network is a keystone of our Southern Region.

Our significant investment in EJ&E has accomplished the goal that we set out to achieve when we acquired the company: provide a fluid route for our traffic to go around Chicago. In periods of high volumes, such as peak harvest volumes or unpredictable volumes due to adverse weather, the improvements we have made on the EJ&E since the STB’s approval of the transaction are providing real results. Incorporating the EJ&E into our network has been beneficial for our customers, but it has also improved service for other railroads operating in the Chicago region (with improved interchange operations, plus the reduction of CN traffic through the city center, freeing up capacity for use by other railroads). Since the EJ&E acquisition in 2009, CN’s train fluidity has improved significantly through Chicago.

CN continues with a number of infrastructure programs in the Chicago area. In recent years, CN has invested over \$117 million in an almost complete rebuild of Kirk Yard in Gary, Indiana, including new administration facilities, a totally rebuilt hump classification yard, and improved track connections. CN still has another \$18 million of enhancements yet to be completed through 2016. By enhancing operations in the yard, and operations on and off the facility, customer service continues to improve through greater capacity and velocity.

CN’s Intermodal facility in Joliet allows southbound trains to deliver intermodal traffic as they transit the area, rather than forcing them to continue to other facilities that would require further handling and trucking.

CN continues to work closely with our partners and fellow stakeholders in the CREATE effort on a number of project enhancements. The Ash Street Project will provide increased speeds and fluidity at the crossing of CN’s Freeport Subdivision and CREATE’s Western Avenue Corridor.

Finally, CN's new \$25 million state-of-the-art training facility at our Southern Region headquarters in Homewood, Illinois insures all of our employees have close access to advanced training in the latest techniques to promote safety and efficient operations.

"Concrete Steps... to Improve Amtrak Performance"

CN has a good working relationship with Amtrak and is committed to addressing the important needs of passenger service in the United States.

The *City of New Orleans* provides the best performing long distance service in the United States, with recent on time performance at 98% under our operating agreement and exceeding key PRIIA metrics. The portion of the *Bluewater* service over CN (from Battle Creek to Port Huron) is also among Amtrak's best performing routes both in contract OTP and PRIIA metrics. CN is also working on a new direct connection with Conrail in West Detroit intended to reduce delays on Amtrak's *Wolverine* service. Earlier this year, CN, Amtrak and the City of Marks, Mississippi signed an agreement to provide for a new flag stop and construction of a passenger station in Marks.

CN is proud to have one of the best performances on longer-haul segments of service for Amtrak. As it relates to shorter line segments, such as in the Chicago area, the complexity and density of freight operations creates real challenges. CN continues to actively work with Amtrak to mitigate these challenges.

"...Enhance Your Communications with Customers and Other Stakeholders..."

As CN works to create value for our customers and grow the business, we have developed and deployed a number of tools to help insure we communicate efficiently about service.

Through our "iAdvise" suite of communication tools, CN is able to provide customers with early notification of disruptions or delays so they can better plan around service issues. This year we have introduced new tools to tell customers more reliably when cars are arriving and give them a clearer picture of traffic flows through our yards. These on-line tools help supplement our personal relationships with customers to insure they have the most accurate, up-to-date information about the cars we are moving and the issues impacting their business.

Beyond the day-to-day information exchange, CN works closely with customers to better understand service demand forecasts so we can plan cars, crew and power to meet these needs.

CN will soon again begin our winter planning programs through customer town halls and other meetings to explain how we are preparing for structural service impacts created by the snow and cold conditions and reaching out to customers to discuss how they can help traffic movements during this challenging season.

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In a comprehensive effort to be transparent with municipalities and their emergency responders located along our tracks, CN embarked upon a comprehensive program to engage with hundreds of communities along our network as part of our Strategic Community Engagement Program. Through a series of informational sessions, CN has reached out to local stakeholders and informed them on a range of issues including hazardous materials responder training at no cost to the community. Through these meetings, we have shared with them a broad understanding of our operations in normal circumstances and in response to incidents.

Thank you again for your interest in CN's operations. On behalf of our more than 7,000 railroaders located in the United States, and our 25,000 system-wide, CN remains committed to safely delivering reliable service to meet the needs of a growing U.S. marketplace and to serve as the backbone for the North American economy. We appreciate the Board's ongoing interest in these issues and our shared dedication to these important goals. Please feel free to contact me if you have any additional questions or need any additional information.

Sincerely,



Claude Mongeau
President and
Chief Executive Officer