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Office of Proceedings

May 11, 2022

Part of

Public Record

May 10, 2022

Via E-Filing

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

Re: Docket No. EP 770, *Urgent Issues in Freight Rail Service*

Dear Ms. Brown:

The U.S. rail operating subsidiaries of Canadian National Railway Company (collectively, "CN") respectfully request that the written testimony of Rob Reilly be placed in the public docket.

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

Respectfully submitted,

Kathryn J. Gainey

Enclosure

**BEFORE THE
SURFACE TRANSPORTATION BOARD**

URGENT ISSUES IN FREIGHT RAIL SERVICE

Docket No. EP 770

WRITTEN TESTIMONY OF CN

Good afternoon. My name is Rob Reilly, I am Executive Vice-President and Chief Operating Officer at CN. I testified at last month's hearing on reciprocal switching, and I welcome the opportunity to speak to you again today about service. As I mentioned in my last testimony, I'm responsible for CN's operation in Canada and the U.S., with responsibility for the Company's transportation, engineering, mechanical, network operations and safety functions. I am also responsible for resource planning for crews and maintenance as well as locomotives. With me today is Kathy Gainey, our Deputy General Counsel, Matt Warren of Sidley Austin, and Tom Sullivan, CN's Director of Labor Relations in the United States.

The Board is understandably concerned about rail service in the United States, and the Board's weekly service data that it collects from railroads provides transparency in service trends. CN welcomed the invitation to participate in this hearing to provide the Board with information about CN's service and employment efforts in the U.S. during these unprecedented times. From a global pandemic where demand for rail transportation dropped more than 20%, to supply chain disruptions in ocean shipping, port throughput, truck driver shortages, to a war in Ukraine, to inflation and more, one shock can have ripple effects in other areas, and challenges on one railroad can impact others on the interconnected rail network. CN

is facing a landscape that could not be predicted, and while CN is forecasting low single-digit volume growth this year for 2022, uncertainty remains and fears of recession are not uncommon.

I am proud of the way CN has navigated through these challenges, and our recovery at the end of Q1 2022 from recent external shocks is a testament to the resilience of our network and reflects the benefit of the historic capital investment CN has made in our network. In the last three years, CN has invested upwards of 10 billion dollars – just over 20 percent of its revenues. CN's historic investment in its network is based on our growth mindset. For example, in the past decade, CN has grown its intermodal volumes more than 80%, leading the way in converting truck to rail. It is a testament to our railroaders, who work hard each and every day to provide safe, reliable service for our customers.

A significant challenge for CN in particular has been the unprecedented severe weather in Western Canada. Catastrophic rains in British Columbia at the end of 2021 caused significant highway, track, and bridge washouts. CN worked around the clock to return our tracks to service, restoring more than 50 outages that had portions of our mainline out of service for approximately three weeks. These major disruptions were followed by extreme cold temperatures in Western Canada. For 85% of the days in January and February this year, temperatures triggered what we call Tier 2 operating freight rail conditions. That is when conditions are minus 23 degrees Fahrenheit and colder. At these temperatures, train lengths must be reduced to maintain safe braking functionality. Running more trains that are shorter requires more locomotives and crews. Tier 2 restrictions essentially reduce available freight capacity on those corridors, and the end result is that CN moves less traffic while these are in effect. This occurred at a time when demand has been strong. And as a result, traffic to and from this part of our network became

backlogged until the temperatures improved on a consistent basis. We saw that break towards the end of February. These challenges at the end of 2021 and first quarter of 2022 coincided with the surge in COVID cases from the Omicron variant, during which we had a significant number of employees out. Thankfully those numbers are now trending down, but there still is uncertainty about future variants as we continue into 2022.

With the weather moderating at the end of February, we were able to regain fluidity on our network in the month of March and catch up most of the backlogged traffic. We saw all of our core operating metrics on our network rebound in March and continue to improve in April. Our daily GTM's are up 24%, train speed improved 18%, train length is up 9% from January lows. And our car velocity is up 35%, which is a system-wide metric of how many miles a car moves per day that CN publicly updates every week on our website. CN's metrics, reported on a weekly basis to the STB, tell a similar story. As of April 20th, our average train speed and average terminal dwell have improved since February even as traffic levels have continued to increase. In fact, CN has handled all-time record volumes on our U.S. portion of our network in March and in April so far. Last Friday, in fact, CN broke an all-time record for volume moved in the U.S., and then that was followed by Saturday, which was just slightly behind the volumes we moved on Friday.

I'm pleased these metrics are trending in the right direction, but we're still cognizant of the challenges facing the transportation sector and are taking proactive steps by planning for demand. Today I will focus on our plans for crews and locomotives.

Starting with crews, I will address CN's train and engine—or T&E—employment, as I understand the Board wants to understand whether railroads

have sufficient crews now and sufficient plans for staffing demand anticipated in 2022. Because it can take a minimum of six months and up to a year to recruit and train crews, CN must begin the hiring process months in advance if there is anticipated increased demand or traffic mix changes. To determine the appropriate T&E employee levels, CN evaluates a number of factors, but one of the most important is forecasted traffic demand. Our planning for crews depends on frequent and up-to-date forecasts from our customers. Unfortunately, it has been very difficult to reliably forecast the demand for 2022, with the pandemic and various external shocks, such as the war in Ukraine, chip shortage, high prices of natural gas and lumber, and supply chain disruptions in vessel schedules. We review and update our forecast at points in time to compare to our plan for staffing and change the staffing plan if needed. The trends in those forecasts have suggested that our plan for crew hiring in the U.S. would be adequate for the month of March 2022. Actual demand in March 2022 came in unexpectedly higher than those forecasts.

CN has hired more than 120 T&E in the U.S. in 2022 through mid-April, in addition to hiring engineering and mechanical employees. In some locations of our U.S. network where CN has needed to unexpectedly and quickly increase T&E headcount, we have offered signing bonuses and retention bonuses of up to \$10,000 as an incentive to hire experienced conductors or engineers who can start sooner than someone new to the rail industry. CN's hiring efforts are reflected in the data we report to the STB each month. Compared to July of 2020, we've hired 516 more T&E in the U.S. than what we had at that time. And as of March 2022, our T&E employee level is higher than it was in 2021.

There are some regions in our network where demand has been unexpectedly high with the war in Ukraine, including shipments of grain to the Gulf for export. Typically, in Q2, we see grain shipments in the U.S. start to decrease as some

customers shift to barge shipments on the Mississippi River, but that typical decline has not occurred thus far this year. With the unexpected demand in grain and strong demand in other commodities and based on our forecasts for the remainder of 2022, we are continuing to hire in preparation for Q4 2022. Through the end of 2022, based on projected demand for later this year, we have a plan to hire over 300 T&E employees in the U.S.

I've heard concerns about the railroads' ability to attract and retain talent given the low unemployment rate and the Great Resignation. CN is investing for the long term in our talent and developing the next generation of railroaders. Focusing on T&E in the United States, our conductors are paid based on an hourly system rather than a mileage-based system of other collective bargaining agreements. Yesterday rail labor raised the quality of life for T&E employees. CN generally does not use pool assignments for our scheduled trains or our over-the-road trains. Our philosophy of the scheduled railroad allows CN to offer day-on/day-off schedules for our train crews. The general patterns are 6 days on and 2 days off for scheduled over-the-road assignments, 5 days on with 2 days off for local and extra-board assignments. All days off run consecutively. In addition to the scheduled days off, the hourly pay agreement also provides CN T&E employees with attractive compensation, where entry-level conductors in the U.S. can earn more than \$90,000 annually.

Changing to locomotives, there has been a lot of interest about whether railroads have sufficient locomotives in place to handle the demand in 2022. We work hard to ensure that we have the locomotives that we need on our network, and we have taken various steps to increase the available locomotives in 2022. Because acquiring new locomotives typically take 9 to 12 months, CN must plan acquisitions of new locomotives well in advance. Since 2018, we have acquired over 260 new

locomotives. In 2021 and the first quarter this year, we acquired an additional 75 high-horsepower locomotives and added additional 13 low-horsepower locomotives from the secondary market. The secondary market can be made available sooner than new locomotives. As shown in our weekly service metrics reported to the STB, CN's weekly average of trains held per day for locomotives has been extremely low, and in the most recent week, it was zero.

On customer demand, I will give you a perspective on customer demand in 2022. CN's recent recovery from the washouts and extreme cold in Western Canada has occurred in the context of strong current demand across multiple commodity groups and unexpected changes in traffic mix. For one thing, there have been surprising shifts in demand in certain industries, including increase in exports from the Gulf of U.S. grain, iron ore originating in Minnesota, crude oil terminating in the Gulf, and coal originating from the Illinois Basin. In addition, forest products have seen volatile demand since the pandemic started. Prior to the pandemic, volume for forest products were trending down as much as 20%. This trend was followed by an unexpected surge in demand in response to new home construction, home improvement, do-it-yourself projects during the pandemic, which triggered higher lumber prices. Today, high inflation levels and rising interest rates could negatively impact the housing market and the price and demand for lumber.

CN has also taken steps to respond further. To accommodate the current unexpectedly high traffic demand to the Gulf due to the war in Ukraine, CN has adjusted its track and other infrastructure maintenance work block schedules so that maintenance work blocks between Jackson, MS, and Memphis, TN, have been rescheduled for later in the summer rather than in the spring, while maintenance work near Memphis yard and Fulton, KY, are planned for the spring. We are also focusing on hiring, as I noted earlier. I would also point out that some of our efforts

to improve safety and increase track capacity will also be beneficial should demand remain high. For example, CN's Autonomous Track Inspection Program, which we call "ATIP" technology, is mounted on a rail car that operates on a train in revenue train service and provides real-time geometric data without interrupting our railroad operations. The data we collect supports predictive maintenance capabilities, and reduces the time required for manual inspections, which increases network capacity and fluidity. Our use of the ATIP technology in the U.S. has resulted in a 51% reduction in delays from engineering-related slow orders on our key Chicago-New Orleans freight corridor since its introduction in 2019, and maintenance and repair workload has increased 16% through 2020 as more conditions were identified by this technology. This is critical on CN's mostly single-track network with passing sidings in the U.S.

Additionally, CN has responded to unprecedented challenges resulting from the disruptions to international and domestic intermodal supply chains. The volatility in the flows of international container traffic through CN's inland intermodal terminals and increased container dwell times have made it difficult to plan for resource allocation and to move shipments as quickly as we would like. However, CN has taken creative and decisive action to help alleviate these impacts, including offering rebate incentives for customers to pick up containers and leasing additional offsite storage locations in Chicago to relieve congestion. CN also initiated a new priority intermodal train service between the Port of Prince Rupert and Chicago, cutting the overall transit time from Shanghai to the Midwest significantly.

The war in Ukraine has significantly shifted global trade patterns with regard to grain and crude, and these patterns might further shift moving forward. And COVID continues to impact the global supply chains, the most recent example

being Shanghai going into lock down starting in late March. Although there is uncertainty when it will fully reopen, with the expectation that containers in Shanghai will continue to resume moving in 2022, we are taking steps now to promote fluidity in our terminals and working with our customers to plan for demand late in 2022. CN has remained relatively congestion-free at our intermodal terminals in the U.S., including the Chicago terminal.

Looking ahead to the rest of 2022, we carefully are monitoring the uncertainty around demand and proactively communicating and meeting with our customers. We take pride in our ability to communicate with our customers, especially as it relates to their expected service. Therefore, we have implemented several communication tools and resources to help keep our customers informed. The CN ONE website is a comprehensive platform that allows customers to track and trace their CN shipments in real time, review updates to planned service, and make changes to their scheduled service, just to name a few of the features. This resource compliments our 24/7 Service Delivery team who are available to assist customers with more complex requests or situations. The Service Delivery team can be contacted via toll-free number 1-866-926-7245 or via a direct email.

With respect to our customers, I do want to address one thing I heard from yesterday's conversation. CN does not retaliate against its customers. CN promotes the highest business standards, including integrity and respect in everything we do and everyone we deal with. This includes our employees, our customers, and more broadly all of our stakeholders.

I am proud of how CN has navigated the tumultuous times during these last five months. We will continue to take proactive steps to address present challenges and plan for the rest of 2022 to provide reliable, safe service for our customers.

Again, thank you for the opportunity to speak, and we welcome your questions.