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October 12, 2005

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Honorable Vernon A. Williams, Secretary
Surface Transportation Board
1925 K Street, N.W.
Washington, D.C. 20423-0001

Re: Ex Parte No. 658, The 25th Anniversary of the Staggers Rail
Act of 1980: A Review and Look Ahead

Dear Mr. Williams:

Pursuant to the Board's Notice of Public Hearing served September 14, 2005 in the
above-entitled proceeding, Canadian National Railway Company ("CN") submits for the record
the enclosed written statement.

Sincerely,

Theodore K. Kalick

**BEFORE THE
SURFACE TRANSPORTATION BOARD**

EX PARTE NO. 658

**THE 25TH ANNIVERSARY OF THE STAGGERS RAIL ACT OF 1980
A REVIEW AND LOOK AHEAD**

**STATEMENT OF
CANADIAN NATIONAL RAILWAY COMPANY**

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The AAR has outlined the origins and benefits of the Staggers Rail Act of 1980 and why any weakening of the Staggers Act framework would be misguided. CN concurs in those views. The tools, flexibility and balance provided by the Staggers Act, and the decisions of this Board and its predecessor, the Interstate Commerce Commission, have put the railroads on a path that has greatly benefited shippers, carriers, and the nation as a whole.

Now that a strong foundation is in place, we need to move to the next level and build an even stronger industry, one based on increased levels of service, efficiency, safety, and capacity utilization. We also need to be able to expand capacity where the market will sustain that expansion. The Staggers Act framework has enabled the industry to provide more efficient high-value service to our customers and the opportunity to earn sufficient revenues to attract the substantial capital necessary to maintain and further improve that service. It would be a mistake to alter that framework just as we enter an era in which excellent rail service is likely to become more essential than ever.

As we move ahead, our customers will demand continuous improvements in service quality and reliability, asset utilization, and cost control. We will need to meet that demand to take advantage of increasing opportunities both to grow our traditional business and to make further inroads into traffic that has traditionally moved by truck.

Thus, even with CN trip plan compliance consistently in the 93-94 percent range, we constantly seek to improve our scheduled railroad model to provide for even higher performance levels and improved service offerings. For example, our IMX initiative utilizes a peak/off-peak approach to spread out intermodal movements more evenly throughout the week. This helps reduce costs and increase capacity, fluidity, reliability, and timeliness. And over the past year, we have established with our major Class I partners routing protocols to move interline traffic over more efficient and less congested interchanges. We estimate, for example, that we have shifted about 60,000 carloads away from Chicago.

Our obligation to operate our business to deliver high-value, responsive, safe, and efficient service to our customers, however, can only be met in a regulatory environment that allows carriers the opportunity to earn compensatory revenues. As AAR has pointed out, on any basis of comparison our industry's investment requirements are large, and we all aggressively reinvest in our networks to assure that our infrastructure is sufficient to meet customer demands. As we noted in our July 14 letter to the Board outlining our plans for addressing this year's fall peak, CN is investing \$1.1 billion US this year, with 80% of capital expenditures going for rail infrastructure and rolling stock.

While CN currently has sufficient capacity to handle demand even during peak demand periods, increasing demands on our network may require investment in

additional capacity. And even with the industry's extraordinary record of safety, looking ahead there must be increasing attention in the post-September 11 world -- and likely added costs -- to managing the risks of our business.

The Staggers Act provided a framework that principally allows the competitive marketplace, rather than the government, to allocate the burdens and risks of supporting the rail network. However, it permitted rigorous regulatory oversight when competition is not sufficient to preclude abuse of market power. This framework, by giving us broad discretion to route and price traffic and to rationalize our networks, all according to market demand, has revitalized the industry and produced well-known and significant beneficial results to all stakeholders, while enabling shippers to seek regulatory protection when the market is not working. As we celebrate the 25th anniversary of the Staggers Act, we should preserve this framework and permit railroads to continue to make the improvements required by their customers.

Respectfully submitted,

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