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July 5, 2007

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Honorable Vernon A. Williams, Secretary
Surface Transportation Board
395 E St., S.W.
Washington, D.C. 20423

Re: Ex Parte No. 672, *Rail Transportation of Resources
Critical to the Nation's Energy Supply*

Dear Mr. Williams:

Pursuant to the Board's notice of public hearing in the above-entitled proceeding, served June 6, 2007, Canadian National Railway Company ("CN") submits for the record the enclosed statement.

Sincerely,

A handwritten signature in black ink that reads 'Theodore K. Kalick'.

Theodore K. Kalick

**BEFORE THE
SURFACE TRANSPORTATION BOARD**

EX PARTE NO. 672

**RAIL TRANSPORTATION OF RESOURCES CRITICAL
TO THE NATION'S ENERGY SUPPLY**

**STATEMENT OF
CANADIAN NATIONAL RAILWAY COMPANY**

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SURFACE TRANSPORTATION BOARD**

EX PARTE NO. 672

**RAIL TRANSPORTATION OF RESOURCES CRITICAL
TO THE NATION'S ENERGY SUPPLY**

**STATEMENT OF
CANADIAN NATIONAL RAILWAY COMPANY**

In this proceeding, the Board is conducting a public hearing to examine issues surrounding the reliability and efficiency of rail transportation of coal and other energy resources important to the Nation's energy supply. Canadian National Railway Company ("CN") welcomes the opportunity to submit this statement for the record. CN also joins in the statement submitted by the Association of American Railroads ("AAR") on behalf of the rail industry.

The requirements for reliable and efficient rail transport of energy resources are no different than for rail service involving other commodities; it requires railroads to manage with certain fundamental objectives in sharp focus -- the delivery of value-added service, asset utilization, cost control, and safety. CN has a long commitment and well-earned reputation for customer satisfaction, and that commitment applies equally to our energy-resource customers.

Our commitment to deliver high-value, responsive, safe and efficient rail transport of energy resources, however, can only be met in a regulatory environment that allows

carriers to earn compensatory revenues. As AAR has pointed out, on any basis of comparison our industry's investment requirements are large, and all carriers are aggressively reinvesting in their networks to assure that our infrastructure is sufficient to meet customer demands. CN is investing approximately \$1.5 billion US this year, with 80% of capital expenditures going for rail infrastructure.

With increasing demand for rail service, such sums, if not more, will continue to be required each year, and these investments will be particularly of increased importance for transporting greater volumes of coal as well as newer energy resources to deal with the energy supply, national security, and environmental issues that the Nation faces.

Coal

While it derives proportionately less of its overall revenues from coal traffic (approximately 5 percent) than its Class 1 counterparts, CN nonetheless transports significant coal tonnage in the United States. It is important for the Board to keep in mind that rail carriers are only one part of the coal supply chain, and that a complete reliability assessment must take into account decisions made and actions taken by all of the participants in the chain, including coal producers, other coal transporters, and, of course, coal consumers – the utilities that generate electricity. Nevertheless, despite decisions made by others in the chain that can impact the ability to provide efficient rail service, AAR has outlined the rail industry's continuing commitment, ability, and success in reliably delivering the record tonnages of coal now moving on the rail network that are demanded today for electricity generation. CN concurs in those views.

CN's U.S. coal movements fall predominantly into two categories: those that CN originates from mine origins along our network in southern Illinois, and those that we

receive at interchange from other carriers that originated movements in the Powder River Basin, Illinois Basin, or eastern U.S. mine origins and that CN delivers to various power plants, principally in the Midwest. For CN-originated Illinois coal movements, CN serves the American Coal Company mine in Galatia, Freeman United Coal's Crown III Mine in Farmersville, and the Williamson Energy mine at Dial.¹ CN also serves the Carbondale Coal Loadout and Midwest Transload's Captain Mine Loadout at Percy, where we transload coal from trucks that originated coal movements at other non-rail served mines in southern Illinois.

As for interchanged coal, in Michigan CN delivers coal, for example, to Detroit Edison power plants in Monroe and Ecorse and to Consumers Energy plants in Erie and Essexville; in Wisconsin to the Wisconsin Public Service plants in Green Bay and Weston Spur; and in Illinois to Dynegy's plant in Baldwin. CN also delivers interchanged coal to the Mississippi Power generating plant in Daniels, MS.

At both the mines and the generating plants it serves, CN must work closely with its customers, particularly as new facilities open, production increases, and logistics change. Train service and timely cycling of unit trains is vital to meet required annual coal volumes, requiring close collaboration and coordination. For example, CN, CSXT (the originating carrier) and Detroit Edison have ongoing discussions to identify operating improvements that would allow for more efficient handling of unit trains between the carriers that would allow for improved cycle times. And at Consumers Energy, CN has implemented weekly conference calls to discuss outstanding service

¹ The Galatia, Freeman, and Williamson mines in southern Illinois are underground mines that have nearby capacity for up to 115-car unit-trains on their respective loading loop tracks. CN will also be serving a Williamson mine at Ferber that is expected to open next year.

issues that have led to better communication regarding empty train releases and more timely pulling of empty trains by CN, reducing equipment cycle time and enabling the building of larger inventories. As a result of these steps and others, CN has been able to provide for coal inventories of at least 30 days at almost all of the power plants that we serve, satisfying current industry norms.

Issues, of course, may arise from time-to-time, but they are addressed quickly and cooperatively. For example, in contrast to a traditional unloading loop track, Wisconsin Power has a ladder-track configuration at its Pulliam Plant in Green Bay that requires additional CN switching that can cause delays in cycle times that recently resulted in reduced coal inventories at the plant of as little as 12-15 days. To address these concerns, CN initiated weekly conference calls with the utility and UP (the originating carrier) to seek improvements elsewhere in the delivery chain. These have led to improved UP and CN communications regarding estimated time for arrivals at the interchange point for loaded and empty trains (Leithton, IL) that have allowed for more efficient crew positioning, reduced delays, and improved cycle times, all leading to improved coal inventory levels at the plant.

Ethanol and Biofuels

Recognizing that industries and consumers throughout North America and overseas are looking increasingly to alternative fuels to reduce energy costs, fuel-related emissions, and greenhouse gases, CN announced on April 30, 2007 an alternative fuels strategy focused on generating new business from the transportation of ethanol and ethanol feedstock, wood pellets, and biodiesel fuel.

The Energy Policy Act of 2005 includes a nationwide renewable fuels standard that will effectively require a doubling of the U.S. production of ethanol to almost 8 billion gallons by 2012. Ethanol blended fuels are now used in 28 States, and with more States expected to adopt such use, the production of ethanol at such levels is estimated to displace over 2.1 billion barrels of crude oil demand and reduce America's dependence on imported oil from an estimated 67.4 to 62.3%.

CN's rail network has extensive access to the Midwest Corn Belt, the source for much of the ethanol produced in the United States. Moreover, 80% of U.S. ethanol production is concentrated currently at plants in Iowa, Illinois, Minnesota, Nebraska, and South Dakota, a great many of which are either served directly by, or readily accessible to, CN. The Company projects its ethanol traffic to increase 25% in 2007 over 2006 levels, and it is committed to meeting this growth by developing an ethanol receiver network to efficiently serve customers located along its lines and working with our interline partners to serve the growing demand in Northeast markets.

New market opportunities are also developing for wood pellets as a result of increased demand in the U.S, Europe, and Asia. Wood pellets emit the lowest greenhouse gases of any fuel burned, and because they are made from scrap wood, they are a completely recycled natural fuel. As such, major power plants are turning to wood pellets as a home-heating alternative to fuel oil, gas or electricity. Pellet fuel is made principally from compressed sawdust, shavings, and fines that remain after processing lumber and other wood products. At pellet mills, the material is dried, compressed, and formed into eraser-sized bits. CN can move pellets in bulk in hopper cars in bulk or, if packaged in bags, by container. Because of its direct access to export terminals on the

Atlantic, Pacific and Gulf Coasts, the Company is well positioned and increasingly prepared to meet worldwide wood pellet demand.

Finally, CN also increasingly transports biodiesel, a clean burning fuel produced from renewable resources such as vegetable oil, animal fats, or waste greases. In its pure form, it is commonly blended with petroleum diesel or heating oil, resulting in an alternative fuel that is biodegradable, non-toxic, and essentially sulfur-free. CN currently serves two biodiesel facilities in Iowa and will serve additional Midwest facilities that are planned for development.

Respectfully submitted,

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