



www.cn.ca

January 8, 2007

**E. Hunter Harrison**  
President and  
Chief Executive Officer

935 de La Gauchetière Street West  
Montreal, Quebec H3B 2M9  
Canada  
**T** 514-399-4800  
**F** 514-399-6896

Président-  
directeur général

935, rue de La Gauchetière Ouest  
Montréal (Québec) H3B 2M9  
Canada  
**T** 514-399-4800  
**Tc** 514-399-6896

Ms. Patti-Ann Finlay  
Associate Producer  
W-FIVE  
CTV Television  
444 Front Street West  
Toronto, Ontario M5V 2S9  
[pafinlay@ctv.ca](mailto:pafinlay@ctv.ca)

Subject: **W-FIVE program on rail safety in Canada**

Dear Ms. Finlay,

CN has responded in a timely and professional manner to W-FIVE's request that it participate in the program's forthcoming segment on rail safety in Canada. But after further reflection about W-FIVE's approach to this subject, CN remains concerned that W-FIVE may not provide its viewers with a complete and unbiased view of rail safety in Canada.

I have concluded that CN can most effectively articulate its position on important rail safety issues in a comprehensive statement to W-FIVE, which this letter constitutes. This approach, in our opinion, will better convey our position to you, and ultimately to your viewers, than through a brief, edited on-camera appearance by a CN officer. Consequently, CN will not participate in a W-FIVE interview.

Let me be clear. CN is fully committed to safe operations – safety is one of our five core principles -- and we are focused on continually improving our safety management practices and performance. Simply put, it's in our best business interest, and the interests of our customers, employees and the communities in which we operate, to maintain a safe, fluid and efficient railway network.

CN's Integrated Safety Plan -- a proactive, comprehensive program designed to minimize risk and continuously reduce injuries and accidents -- directly supports the company's core safety values. The plan focuses on three key areas: people, process and technology. When safety issues arise, CN acts immediately to address them. In the latter part of 2005 CN experienced an unfortunate spike in accidents in western Canada. There were two major environmental incidents that received widespread media attention, one in Alberta and one in British Columbia. In response, CN launched a comprehensive Safety Action Plan designed to address the number and the severity of accidents the company was experiencing on its network. The plan included increased track and equipment monitoring and inspections, increased training, increased rules enforcement, and increased annual capital spending.

CN's actions have been highly effective, as evidenced by the 26 per cent reduction in the company's Transportation Safety Board of Canada (TSB) reportable main track derailments in 2006, compared with its 2005 performance. Furthermore, reflecting the addition of the Mackenzie Northern Railway to CN's network in January 2006, the pro forma improvement in CN's 2006 main track derailment performance would have been 31 per cent.

Significantly, the cost and severity of CN accidents last year was reduced by 50 per cent, and just about half of CN's main track derailments in 2006 involved only one freight car. In addition, North American industry statistics show that CN last year was among the safest railways on the continent.

Amidst this progress, CN did not lose sight of the tragic accident on its Lillooet Subdivision in June 2006, which cost the lives of two valued CN employees. That incident, along with CN's Wabamun and Cheakamus accidents in 2005, remain under investigation by the TSB, and CN continues to work closely with the agency on these files.

Ms. Patti-Ann Finlay  
Page 3  
January 8, 2007

Please see the attached background document describing CN's 2006 safety performance in detail, along with an outline of CN's comprehensive safety initiatives.

CN intends to accelerate its safety improvement gains in 2007. We have recently completed an unprecedented number of Corporate Safety Strategy planning sessions, which involved comprehensive seminars aimed at reviewing current practices and developing detailed plans to reduce future accidents in an overall process of continuous improvement. In fact, a number of Transport Canada and TSB officers participated in these seminars, held at five locations across Canada, and provided feedback and some very complimentary comments on the process.

In addition, CN will increase capital spending this year to C\$1.6 billion, investing more than C\$1 billion in track infrastructure to maintain a safety railway and to improve the productivity and fluidity of its network. Of this sum CN will spend more than C\$800 million on basic capital, replacing rail, ties and other track materials and improving bridges. In western Canada alone, CN plans to invest nearly C\$350 million in track infrastructure.

CN in 2007 will participate actively in the Transport Minister's task force on the review of Canada's Railway Safety Act. We believe that by working together, CN and other stakeholders in the process can advance the cause of transportation safety in Canada. CN is fully committed to that outcome.

Sincerely,

A handwritten signature in black ink, appearing to read 'E. Hunter Harrison', with a long horizontal flourish extending to the right.

E. Hunter Harrison  
President and  
Chief Executive Officer

Attch.



## CN'S COMMITMENT TO SAFETY

### Safety performance

- CN's safety performance in 2006 improved significantly. According to the Transportation Safety Board of Canada (TSB) database – the TSB is Canada's authority on rail safety statistics – CN reported 76 main track derailments in Canada last year, down 26 per cent from 103 main track derailments in 2005.
- CN's 2006 main track derailment total was **roughly the same as the number of main track derailments in 2004 and 2003 despite two acquisitions in recent years that have increased CN's network size by 15 per cent.**
- CN's 2006 safety statistics include derailments on the former BC Rail, acquired by CN on July 14, 2004, and the Mackenzie Northern Railway, which became part of CN's network on January 19, 2006. These accidents would not have been included in CN totals prior to these dates. As such, direct comparisons over this time frame are skewed. For instance, on a pro forma basis, without the addition of Mackenzie Northern to CN's system, CN would have reported 70 main track derailments in 2006 versus 103 in 2005, an improvement of 31 per cent.
- CN had 76 TSB-reportable main track derailments in 2004 (accidents on the former BC Rail became part of CN's TSB accident statistics effective July 14, 2004) and 77 in 2003.

### Safety Action Plan

CN continues to take important steps to improve its safety performance:

- Increased 2006 capital spending by nine per cent to C\$1.5 billion, which will rise to C\$1.6 billion in 2007.
- Increased rail inspections by 50 per cent. CN has a new strategy to increase the speed of rail flaw detection to 700 miles per day from 400 miles per day, with the objective of accelerating coverage of CN's core network from once every two months to once a month. This approach should capture defects before they deteriorate to the point of causing a rail break and/or derailment.

- Installed four new Wheel Impact Load Detectors, which capture flat wheels before they can generate rail defects. CN has the largest network of these detectors of any railway in North America.
- Increased measures to capture track-surfacing defects, such as level and gauge. CN is in the process of acquiring a second track geometry inspection car at a cost of C\$5 million. CN uses its track geometry car extensively throughout its network, with some territories such as the Montreal-to-Toronto corridor and the B.C. South corridor being tested anywhere from four to six times annually. Engineering-related derailments have declined steadily in recent years despite an approximate 15 per cent increase in route miles with the acquisitions of BC Rail and Mackenzie Northern.
- Systematic air brake tests are now being performed on cars found with hot wheels.
- Premium brake shoes continue to be applied to rolling stock to reduce the risk of wheel failures, with about 150,000 applied to date.
- "Pull-by" and main track "roll-by" inspections have been emphasized, with an emphasis on quality execution.
- Increased focus on employee behaviour and compliance with operating rules, with regular "efficiency tests" to ensure effective monitoring of employees' adherence to railway operating rules.
- A complete review of CN's emergency response plan has been undertaken, with significant enhancements implemented.

### **Safety audit by Transport Canada**

Transport Canada began a safety audit of CN in the fall of 2005. The company worked closely with the department on this issue. In response to the audit, CN provided thorough and detailed answers to a series of questions in a manner entirely consistent with historical practice. However, Transport Canada determined that the initial information provided by CN required additional detail, and subsequently issued CN a Section 32 Ministerial Order that requested detailed consolidated documentation on a number of CN's safety-related processes and procedures.

CN on October 16, 2006, provided the requested information in the format preferred by Transport Canada. On November 15, 2006, Transport Canada advised CN that it was satisfied that all requirements in the Order had been met and that the department therefore considered the Order "spent" or no longer in effect.

## **CN remediation work at Lake Wabamun, Cheakamus**

### **Wabamun**

- CN is fully committed to the ongoing remediation of Lake Wabamun. Clean up and remediation activities began immediately after the August 3, 2005, spill and continued until freeze up in late October 2005. An intensive survey of the lake and shoreline was conducted by CN and the regulatory agencies in the spring of 2006. A comprehensive action plan was implemented, based on that survey, through the spring, summer and fall of 2006.
- CN and the regulators will conduct a similar survey in the spring of 2007, to determine what work will be needed this year.
- Independent scientific studies show that the lake is recovering from the effects of the spill, as predicted. Plants and animals living in the lake water show no evidence of adverse effects from the oil. The lake was cleared for normal human activities -- wading, swimming, boating, etc. -- by the regulators in the summer of 2006. Oil tarball presence on the lake shorelines continues to decline, as extensive clean-up activities were conducted through the summer and fall of 2006, and the product continues to degrade to an inert form.
- CN has settled loss of use claims with over 1,500 lake residents, virtually all affected home and cottage owners. The class action lawsuit launched by one resident against CN, intended to recover damages caused by the derailment and spill, has been withdrawn.
- CN is in discussions with the Paul Band First Nation, to determine how to settle the issues around their court action against CN.

### **Cheakamus**

- CN is committed to remediation of the effects of the caustic soda spill of August 5, 2005.
- CN, working with all relevant government agencies at the federal and provincial levels, has developed and is fully engaged in the implementation of a comprehensive multi-year recovery program for the river. This plan will evolve with regular ongoing input from a wide range of stakeholder groups, including First Nations, sport fishing associations, environmental and local citizen groups.
- Fish present in the river at the time of the spill were affected to varying degrees. Effects on overall species populations varied, as some species were more present in the river at the time, than other species. This is the result of their natural biological cycles -- species at various points in their lifecycles are found in specific river and ocean environments.

- CN is working with the regulators to determine exact effects on affected species, and to develop programs designed to promote increasing fish populations overall. Fish populations in the river system were already under pressure from a variety of factors, and this work will provide an overall benefit to the ecosystem.

- The work includes fish re-stocking programs and habitat improvements (fish passage channels, new culverts, etc.) designed to promote fish populations.

- This work will continue over the next several years, in conjunction with the regulators and local stakeholders.