



**Canadian National Railway Company
Acquisition of EJ&E West Company
STB Finance Docket No. 35087**

Second Audit

EXECUTIVE SUMMARY

Purpose and Objectives

The Surface Transportation Board (Board) requested that HDR Engineering, Inc. (HDR) provide a second, independent audit of the Canadian National Ry. and Grand Trunk Corp., – Control – E&E West Co (STB Finance Docket No. 35087) transaction, specifically the Canadian National (CN) November and December 2011 operational reports and CN's 4th quarter 2011 Quarterly Environmental Report. The purpose of this second audit is to assist the Board in monitoring the impact of the transaction authorized in Decision No. 16. In addition, the audit assessed the information submitted by CN related to the derailment that occurred near Bartlett, Illinois, on November 3, 2011. Based on the information in the operational and environmental reports, the available information on the November 3, 2011, derailment, and site visits, the audit considered the following issues:

- CN's progress in constructing rail improvements;
- CN's progress in road closure issues and grade crossing improvements, including the two grade separation projects required by Decision No. 16;
- Grade crossing delays caused both by operations on adjacent rail lines (and not CN's operations), and by CN's operations at the nine crossings identified in Decision No. 26 as described in CN's operational reports; and
- CN's November 3, 2011, derailment at Spaulding (near Bartlett, Illinois).

CN has been filing the reports required by Decision No. 16. Those reports, together with field observations of present conditions, interviews with CN staff, and reviews of CN records form the basis of this second audit report.

Audit Findings

HDR review was limited to the four specific issues described above. Generally, HDR found that CN is making satisfactory progress in constructing rail improvements, road closures and grade crossing improvements, and grade separations. HDR also reviewed the available information regarding the derailment at Spaulding, near Bartlett, Illinois and notes that the Federal Railroad Administration's investigation is still on-going.

HDR's review of grade crossing delays identified several inaccuracies in reporting that, while minor, suggest that CN's internal review and quality control practices for the monthly reporting process could be improved. HDR has discussed these inaccuracies with CN, and CN has agreed to correct the problems in future monthly reports.

CN's Progress in Constructing Rail Improvements

Satisfactory progress has been made in constructions of rail-to-rail connections. CN's progress in completing the construction projects described in the Environmental Impact Statement and CN's 4th Quarter Environmental Report is summarized in the table below.

Field Observations of EJ&E Construction Status as of March 7 and 8, 2012

Project	Description	CN's Reported Status on 12/31/2011	HDR Observation
Matteson Connection	New connection tracks between EJ&E and IC at Matteson, IL: SE quadrant, single-track, 15 miles per hour (mph) NE quadrant, IC-South to EJ&E-East, 15 mph NE quadrant, IC-North to EJ&E-West, 15 mph	In Service 10/3/2011.	Track, wayside signal, earthwork, drainage, and structures are complete with the exception of minor site civil punch-list items. Track and wayside signaling systems are in service. The project is in accordance with or exceeds what was anticipated in Condition No. 16 in Decision No. 16: the SE connection track was designed and built for 25 mph maximum speed instead of the 15 mph maximum that was anticipated as the best-possible at the conceptual engineering stage. The project includes grading for an observation deck for rail enthusiasts to watch trains move through the connection, and the commuter parking lot was resurfaced with handicapped accessible ramps to reach the rail station.
Griffith Connection	New connection track between EJ&E and GTW in NE quadrant.	Completed 2010.	Complete and in service.
Leithton Connection	New 30 mph double-track connection track between EJ&E and WC in NW quadrant (double-tracked), replacing single-track 10-mph connection.	Under construction; Main Track #2 in service December 13, 2011, at 25 mph.	Main Track #2 and wayside signal are in service and complete except for final cutover and alignment, which will occur with completion of Main Track #1. Earthwork, drainage, and structures are substantially complete from north turnouts to Diamond Lake Road.
East Joliet Yard Bypass Mains	Construct two main tracks along the east side of EJ&E East Joliet Yard to enable through trains to bypass the yard at 25 mph instead of operating through the yard at 10 mph.	In Service September 2011.	Main tracks, wayside signal, drainage, and site civil work complete.

Field Observations of EJ&E Construction Status as of March 7 and 8, 2012

Project	Description	CN's Reported Status on 12/31/2011	HDR Observation
Eola Yard	Construct new bridge over BNSF Chicago Subdivision and construct 2,100 feet of new track to create new 10,500-foot (clear) controlled siding with #20 north power-operated turnout and #15 south power-operated turnout, with new wayside signaling.	Negotiations with BNSF under way. Permitting and mitigation plans underway. Construction scheduled to commence 2012 on installation of #20 turnout.	No construction has yet occurred. CN notes that south turnout may become #20, and siding maximum speed may increase from 25 mph to 30 mph.
Prairie Path Pedestrian crossing revisions at Eola, Diehl Road	Relocate Prairie Path pedestrian crossing to Diehl Road crossing from existing location. Add fencing to channel path users to Diehl Road crossing. Install warning signals (gates) at pedestrian crossing.	Relocation of pedestrian path completed after coordination with DuPage County.	Pedestrian path relocated to Diehl Road. Signage and fencing directing path users to new route completed. Warning signals to be constructed by CN; design under coordination with Illinois Department of Transportation, District 1, Bureau of Local Roads (also the funding source). See VM 61.

Progress in Road Closure Issues and Grade Crossing Improvements

Satisfactory progress has also been made in planned road closures and highway/rail grade separation projects. CN is making normal progress on the Woodruff Road closure and grade separations for U.S. 30 and Ogden Avenue. As of March 7, the construction plans for a bypass at Woodruff Road are 95 percent complete with approvals expected by early May, 2012, and construction completed by the end of October, 2012.

Conceptual plans for the grade separation projects have been prepared and are currently undergoing public review. With respect to the U.S. 30 (Lincoln Highway) Grade Separation, there is uncertainty about whether CN should be required to participate in the cost of pedestrian and bicycle accommodations since these features are not currently present. The Illinois Department of Transportation (IDOT) and/or CN may request a determination on the matter from the Board.

The U.S. Highway 34 (Ogden Avenue) grade separation project is making satisfactory progress. IDOT has evaluated alternatives and is moving forward with a highway overpass for the crossing.

Vehicle Delays at Grade Crossings

Delays at road crossings continue to occur, some of which are the result of trains of other carriers and are not in CN's control. Blockages of road crossings for more than 10 minutes have also continued to occur. While CN accurately reported the number of these blockages to the STB, it has not always been accurate when it has attributed the blockages to another railroad. CN attributed 277 blockages during the November and December 2011 reporting periods to the operations of another rail carrier on tracks adjacent to CN that cross the same roadway. In those cases, the activation of the grade-crossing warning signal system of the other rail carrier for more than 10 minutes would have also activated the grade-crossing warning signal system of CN for

more than 10 minutes, thus generating a reportable delay. HDR audited this attribution and found that in 239 of the 277 instances the blockages appeared to have been caused by operations of another rail carrier on a parallel track not under the control of CN, and that in 38 of the 277 instances the blockages were incorrectly attributed by CN, were caused by CN, or were under CN's control. HDR has brought this problem to CN's attention. Now that CN has been made aware of the inaccuracy of some of its attributions of cause of blockages in its reports, it is expected that CN will take the necessary steps to ensure that in the future blockages are correctly attributed to the proper cause.

CN has instituted an automated reporting system for grade-crossing blockages of more than 10 minutes that reduces human steps to record these events. Under the prior method, each crossing signal system, when it was activated for any reason for more than 10 minutes, generated a fax to the CN train dispatching desk at CN's Homewood, Illinois, operations center that controls the EJ&E rail line. The train dispatcher would then transcribe the information on the fax into a log book. The automated method, which uses a Remote Terminal Unit (RTU), logs each crossing blockage in real time, eliminating this human step and the opportunities it creates for not logging all crossing blockages, or mistranscription of information. However, CN must still manually review the log and determine the cause for each crossing blockage.

Utilizing the data available, HDR concluded that CN's monthly operational reports for the nine crossings specified in Decision No. 26 accurately reported the total number of instances in which grade-crossing warning signals were activated for more than 10 minutes.

Assessment of Information Related to November 3, 2011, Derailment

HDR documented information provided by CN to the Board and the Federal Railroad Administration (FRA) relating to the derailment of train A-49191-02 at Spaulding, Illinois, on November 3, 2011. HDR also obtained publicly available information from FRA relating to CN's train accident rate per train-mile.

HDR used the FRA's Office of Safety Analysis website to compare CN's U.S. derailment rate for main track for the State of Illinois for the years 2008 through 2011 to the other six U.S. Class I freight railroads. This analysis indicates that the total number of derailments in Illinois for Class I railroads during these calendar years is low, and that CN does not appear to be exceptional compared to the other six Class I railroads. The FRA's investigation of this accident is on-going.