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Office of Proceedings
August 30, 2024
Part of
Public Record

August 30, 2024

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

Re: Ex Parte No. 775, *Growth in the Freight Rail Industry*

Dear Ms. Brown:

On behalf of Canadian Pacific Kansas City Limited and its U.S. rail carrier subsidiaries (collectively "CPKC"),¹ I am writing in response to the Board's Notice served August 23 to provide the Board with the full written testimony of John Brooks, CPKC's Executive Vice President and Chief Marketing Officer. As previously noted, Mr. Brooks anticipates his oral presentation will be accompanied by some PowerPoint slides.

Please contact me if you have any questions.

Respectfully submitted,



David L. Meyer

*Attorney for Canadian Pacific
Kansas City Limited*

¹ CPKC's U.S. rail carrier subsidiaries include Soo Line Railroad Company; Central Maine & Quebec Railway US Inc.; Dakota, Minnesota & Eastern Railroad Corporation; Delaware & Hudson Railway Company, Inc.; The Kansas City Southern Railway Company, Gateway Eastern Railway Company, and The Texas Mexican Railway Company.

**BEFORE THE
SURFACE TRANSPORTATION BOARD**

**GROWTH IN THE FREIGHT RAIL INDUSTRY
EX PARTE No. 775**

**WRITTEN TESTIMONY OF JOHN BROOKS,
EXECUTIVE VICE PRESIDENT AND CHIEF MARKETING OFFICER
OF CANADIAN PACIFIC KANSAS CITY LIMITED***

AUGUST 30, 2024

* - On behalf of CPKC's U.S. rail carrier subsidiaries.

1. Good morning/afternoon. Thank you for having me here today to speak on behalf of CPKC and its U.S. carrier subsidiaries. My name is John Brooks and I am CPKC's Executive Vice President and Chief Marketing Officer.

2. I have been in the railroad industry for 30 years as of this month, at both Class 1 and regional railroads. I began my career with Union Pacific but left in 1997 to help start up I&M Rail Link, LLC. IMRL was purchased by the Dakota, Minnesota & Eastern Railroad in 2002, and I served as DM&E's Vice President of Marketing until that railroad was acquired by Canadian Pacific in 2007. I became CP's Chief Marketing Officer in 2017, and when CPKC was formed in April 2023 by bringing the CP and KCS systems together to operate as a single network, I became CPKC's Chief Marketing Officer.

3. The Board set up these hearings "to gather information about recent trends and strategies for growth in the freight rail industry." This focus dovetails well with one of CPKC's principal strategies for achieving commercial success, which is to grow our traffic base. CPKC – like CP and KCS – has been pursuing growth in the marketplace for a long time, and because we are a public company we have been clear with our shareholders about our focus on our growth strategy. We see growth as the beneficial fruit of everything we do – from providing customers with predictable and reliable service, to investments in capacity, to innovating solutions that support the business needs of rail shippers.

4. We are proud of what we have achieved. CPKC and its predecessors have collectively grown at a faster rate since 2018 than the rest of the Class 1s put together. As an operating company, the metric that best reflects the volume of transportation services our customers choose to purchase from us is revenue ton miles – or "RTMs" – which is basically the number of tons moved in revenue service for one mile. That metric reflects not just how many

carloads or intermodal units we touch, but how much workload we are handling – including the amount of freight we are hauling in each railcar and how well our network is able to provide market reach for our customers.

5. Our growth has been enabled by a regulatory environment that has been predictable, fair, and founded upon market principles. That environment has supported competitive moves like our own CP/KCS transaction, without hampering our ability to pursue innovation and invest in growth-oriented initiatives.

6. In that vein, the CP/KCS combination was a transformative step for both CP and KCS that perfectly fit both railroads' growth strategies, accelerating our growth trajectory. In the first year of CPKC's existence as a combined network, we have grown by helping customers meet their transportation needs through CPKC's broader network reach and service focus, and in the process we have spurred other railroads to step up their competitive efforts.

7. Our growth has also occurred against the backdrop of some macroeconomic trends. Some are adverse, and there is little we can do about some of the external macro factors, like secular declines in certain commodities, consumer behaviors, and fluctuations in the grain harvest. Some macro trends can be positive, and at CPKC we treat the macro organic growth as a gift; our focus stays on our strategic playbooks and the self-help initiatives that we target to deliver growth over and above those trends and despite any macro headwinds. These initiatives include working hard to take proactive steps to encourage shippers to use our land assets to co-locate facilities in our terminals or adjacent to our network and to expand the reach of our network through transloads and connecting shortlines.

8. While I will dive into each of these areas in more detail, at a high-level our strategy is one we're proud of. Namely, CPKC continues to pursue growth through a commitment to our key fundamentals, including:

- *operating plan execution;*
- *a commitment to capacity* – inclusive of all types: track capacity, crews, power, railcars, terminals, etc.; and
- *a close working relationship with our customers*, to ensure that our service design remains optimized to meet their needs.

We are not stopping there though. CPKC is investing in growth and strategically partnering with customers who are aligned in pursuing this same vision – growing through new service offerings, facility construction and expansion, and more.

9. The foundation for all of the things we strive to do to grow is our operating model. That model owes its legacy to CP's transformation during the early part of this century and is today CPKC's own version of Precision Scheduled Railroading or "PSR." I know that PSR has become a provocative three-letter word for some, but our operating model is absolutely at the core of our growth story and how it unlocks our ability to not only attract new traffic to our network but also best position our existing customers, no matter their size, to win in their markets and thus grow their traffic levels with CPKC.

10. PSR done the right way – the CPKC way – creates a *virtuous cycle*: a constant pursuit of operational and safety excellence enabled through optimizing processes across a rail network; controlling costs, improving asset utilization, and delivering predictable and reliable service for our customers. That, in turn, enables us to facilitate success for our customers in their markets, which in turn earns their trust and leads them to award us the opportunity for further

growth. Those growth opportunities provide the business case for us to invest in capacity to support even more service offerings.

11. The bottom line is that our operating model allows us to sell CPKC's services with confidence that we will deliver what we said we would deliver, safely and on time – and there is nothing more important than that in growing the business. If the “PSR” label is attached to a business model that is not delivering this sort of virtuous growth cycle, then it is PSR in name only.

12. This model has also allowed us the financial strength (previously unavailable to CP) to invest more than we have ever in our history, expanding our capacity to grow in tandem with our customers. To support our quest for growth, CP and KCS, and now CPKC, have made massive capital investments to make the railroad safer and more capable of delivering high-quality services for more customers. In terms of growth-oriented capital, we are spending hundreds of millions of dollars in new capacity and new services.

13. Among the key examples:

- Even before the CP/KCS combination, CP had decided that we needed to expand our capacity to support growth on our U.S. network. We embarked on a multi-year, multi-phase expansion of our Bensenville Yard in Chicago that will add carload and intermodal capacity and an entirely new automotive compound.
- KCS was like-minded, and had the foresight even before the CP/KCS transaction to invest in the capacity of its network to support growth. A prime example is the second rail bridge across the Rio Grande River at Laredo, which we expect to be complete and operational in the near future. This investment will support growth

in train volumes and facilitate attracting some of the cross-border truck traffic between Mexico and the U.S. Midwest.

- As a third example, prior to the merger, both railroads were investing in mainline capacity across their respective north-south U.S. networks, adding and lengthening sidings and upgrading signal systems. The merger has sparked a significant expansion of that effort, with several hundred millions in new capacity investments from near Beaumont, Texas, all the way north to Illinois and Minnesota. Much of that steel is already in the ground, with a lot more to come ahead of anticipated volume growth.
- Finally, our proposed acquisition of the Meridian & Bigbee line (pending regulatory approval) is another manifestation of our effort to develop new services to meet the needs of rail customers and thereby support beneficial growth. That transaction will establish a direct connection with CSX for important flows of traffic to and from the Southeast United States.

14. CPKC's ability to invest in and deliver high-quality service from A to B is only part of the puzzle. Fundamental to growth is close collaboration with our customers. Part of that is supporting our customers' needs with multiple touchpoints in terms of customer service. Like many railroads, we offer a 24/7/365 customer service hotline and make available an array of tools that allow our customers to order cars and track their shipments. But we succeed best when we collaborate more deeply with our customers and understand how we can better help them succeed. For example, perhaps somewhat unique to CPKC, we proactively support direct relationships between customers and our front-line operating personnel who usually are best positioned to understand the customer's unique needs and issues. At a higher level, we have

recently expanded our Customer Advisory Council (or “CAC”) to add a number of KCS shippers, and we held meetings with the combined CPKC CAC earlier this month in Kansas City. That body provides an important source of input on the needs of our customers and feedback on the effectiveness of our efforts to meet their needs. Through all of these approaches and more, we strive to be a provider of transportation solutions that customers prefer to use.

* * *

15. In the time remaining, I’d like to illustrate the kinds of strategies that contribute to our growth by walking through several examples of what CPKC is doing in the marketplace.

MMX 180/181 - Domestic Intermodal

16. Let me start with an example that underscores how important it is to offer customers services that reliably meet their transportation needs. With the CP/KCS transaction, we saw the market opportunity that would be available if we could establish a new domestic intermodal service between Mexico and Chicago that provided truck-like speeds and reliability.

17. Our operating team – taking advantage of PSR principles and using a playbook similar to the one we deployed on our service between Calgary and Toronto – built the new Midwest-Mexico Express (or MMX) service (CPKC trains 180 and 181). With stops en route at Shreveport (to support Dallas service) and Kansas City (at KCS’s IFG intermodal terminal), those trains have been the backbone of a resurgence in truck-competitive traffic on the CPKC North-South corridor.

18. The service has been a success, both commercially and operationally, but it has lots more room to grow as we offer our customers both retail and wholesale product offerings. CPKC’s transit times have consistently beaten advertised schedules as well as typical truck performance in the Mexico-Chicago lane. And this new service will support further expansion.

It will be the backbone of the intermodal services we offer via the new Myrtlewood connection with CSX (pending regulatory approval of the MNBR transaction) to serve the Southeastern United States. And it will also support new truck-competitive service to the Ohio Valley and beyond via a connection with NS at Kansas City.

Americold

19. My next example highlights how we strive to work with customers to support the use of our adjacent landholdings through mutual investments in assets, services, and facilities that enable traffic growth. With the CP/KCS combination we saw a unique opportunity to harness the capabilities of the combined network to attract to rail some of the perishables traffic moving today on trucks between Mexico and the U.S. Midwest (proteins heading south; fruits and vegetables heading north). For our part, we established new truck-like premium intermodal services provided by our MMX service, invested in 1,000 new refrigerated containers to support perishables shipments, and worked with a major customer (Americold) to facilitate its construction of a \$127 million cold storage distribution facility co-located on CPKC land adjacent to KCS's IFG intermodal terminal near Kansas City. These steps promise to shift tens of thousands of shipments from the highways to the rail network.

Automotive Traffic

20. My third example illustrates the power of innovative operational design supported by capital investment. With its new broader network reach, CPKC saw an opportunity to provide automotive shippers with an innovative service model designed to drive accountability, consistency and reliability into this challenging supply chain. We started with a major investment in a new auto compound in the Dallas area. Using 35 acres of a 500-plus acre site, we built a facility with a capacity for 160,000 to 180,000 vehicles annually. Second, we invested

in partnership with our customers in approximately 1,900 additional auto-rack cars to support the operating model and growth. The combination of our service model, equipment, and new destination unlocked the ability to provide customers with supply chain resiliency through improved equipment utilization and more reliable access to empty railcars for loading. CPKC's new "closed loop" operating model creates new capacity and supports growth in the auto industry: for example, the railcars used to deliver finished autos from Mexico to the U.S. Midwest or Canada can be repositioned for their next loads at CPKC-served assembly plants in Canada, then moved loaded to destinations served via the Dallas facility, and ultimately repositioned for loading at OEM facilities in Mexico to complete the loop.

Carload Growth Opportunities

21. By no means are all of our growth efforts directed at major opportunities like the ones I have summarized so far. We have been pursuing manifest carload traffic growth of all shapes and sizes – from shipments of LPG to receivers across the CPKC network, shipments of steel from Iowa to Texas; and shipments of plastics from the Gulf states to receivers across the Upper Midwest, just to name a few.

22. A prime example worth highlighting is the movement of lumber to markets in the South Central States, such as the metro regions of Texas, on behalf of numerous customers, most of which are served via truck transloads at origin – all via efficient single-linehaul service. CPKC is strategically aligned to optimizing transportation to serve this top-growing area in the United States. We are currently moving hundreds of carloads a month of construction products into these markets most of which are reaching their final destination via rail-to-truck transloads. We are creating new connections and enhancing competition for shippers and end-users alike.

8500-Foot Grain Train Model

23. For a railroad like CPKC whose U.S. network is centered in America's grain belt, growth means finding ways to serve agricultural commodities more effectively, expanding market opportunities for growers. Traffic volumes in this sector are inevitably linked to non-transportation factors – like the weather – that affect the size of the grain harvest. Nonetheless, we are pursuing a greater share of grain loadings by seeking to provide customers with more access to a broader array of markets for their crops. The greater reach of the CPKC network of course does that. But CP was working on grain traffic growth since well before the CP/KCS transaction. In 2018 we introduced a new, more efficient “8,500-foot” grain operating model designed to expand the shipper's access to markets by significantly improving efficiency, cycle times, and reliability. With investments by the customer in loading and unloading facilities and investments by CPKC in higher-capacity grain cars – CPKC spent approximately half a billion Canadian dollars on 5,900 higher capacity grain cars, through 2023 – and collaboration between us and the customer around the loading and unloading of these trains, CPKC can improve our shippers' economics and help them tap more distant market opportunities. Several customers across CP's Canadian and U.S. network – and recently customers on the KCS network as well – have already joined us in making these investments in growth, with a strong industrial development pipeline for further expansions in our line of sight.

Collaborating with Our Customers to Implement Processes that Better Meet Their Needs

24. Most of the efforts we undertake to support growth are not big initiatives that warrant a press release. They are the everyday, in-the-trenches efforts of our operating and marketing personnel aimed at deepening our customer relationships, better understanding the needs of those customers, and working on ways that we can tailor our services to better meet

those needs. One way we do this is through something we call “whiteboarding.” Whiteboarding is basically a multi-disciplinary exercise among our operating and marketing personnel to bring a fresh perspective to how we can work together to help the customer do business.

25. A recent example illustrates the point. We sent a team of people out to visit a manifest carload customer on the former-KCS network. We sat down with customer personnel at both the corporate and plant level to understand how they do business. We stop-watched their processes and how they interacted with the first-mile/last-mile services we were providing. And we rethought how the processes of both parties could be adjusted to mesh better and thus better support the customer’s commercial success. We can’t point to new traffic that these specific efforts have generated ... yet. But we are confident that through similar efforts for customers of all kinds, big and small, across our network, we will support growth along with the growth that our customers achieve in the marketplaces they serve.

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26. Before I conclude, do let me say that this railroad is on a forever journey as Keith Creel refers to it. To me that means we will not be complacent. We will not be satisfied with the status quo. Rather, we will continue to develop and deliver reliable service offerings that meet the needs of our customers, grow our franchise, and contribute to the strength of North America’s railroad network.

27. Thank you. I would be happy to take your questions.

John Brooks