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Rail Freight Service Review Secretariat  
Suite 808 - 180 Elgin Street  
Ottawa, Ontario  
K1A 0N5

[RFSR-ESMF@tc.gc.ca](mailto:RFSR-ESMF@tc.gc.ca)

Dear Secretariat,

NOVA Chemicals is pleased to input to the Rail Freight Service Review Panel.

### **Background**

NOVA Chemicals produces plastics and chemicals that are essential to everyday life. Our employees develop and manufacture materials for customers worldwide who produce consumer, industrial and packaging products. NOVA Chemicals works with a commitment to Responsible Care® to ensure effective health, safety, security and environmental stewardship.

Our customers across North America and around the world rely on effective rail service to receive timely deliveries from us; we in turn rely on regular rail service for shipments of raw materials and finished products. Our rail suppliers are strategic to our business and our approach has been to communicate, collaborate, and educate as effectively as possible to achieve our mutual goals.

Annually, our company ships tens of thousands of railcar shipments of plastics resins and chemicals and are very sensitive to the operating and commercial changes in the rail industry in both Canada and the United States. In Canada, we operate large world class manufacturing complexes near Sarnia, Ontario and in Joffre, Alberta which are directly served by CN Rail. We enjoy inter-zone switching in Red Deer, AB with the CPRS.

We have seen rail service improvements over the past few years and it should be noted that both CN and CP have worked very closely with us to understand our needs and provide best efforts at all times. This is especially true during our month-end or quarter-end cycle. Due to the nature of our industry, our daily shipments are not rateable but extra efforts are put forth by the railroads to maximize our shipments to customers at the end of each month.

Over the years, we have experienced a variety of service issues which are outlined in the Appendix. We were significantly impacted by the 2007 CN Rail Strike and wrote directly to E. Hunter Harrison, then the President and CEO of CN Rail in August 2007 after lingering operational issues after the strike. We got an immediate response and follow up meetings were very successful.

Rail carrier service model changes have negatively impacted NOVA Chemicals' domestic (mainline) and international export business.

### **Communication, Collaboration and Education**

We believe the keys to success are regular communication sessions (from e-mail and phone conversations to face to face meetings), collaboration on special projects or initiatives and continued education with each other about our respective business models. To date, these have included:

- Scheduled bi-monthly meetings with CPRS where we review transit performance on key lanes as well as an overview on dwell time on bad order cars
- Regular Operations meetings with CN at our facilities or at their major serving yards (Walker Yard in Edmonton or Sarnia Yard)
- Providing Month-end shipping forecasts to our carriers so they can effectively plan motive power

### **Service Issues and Adverse Impacts**

Overall, our transit times have increased by 15-25% on major lanes over the past ten years which impacts our fleet cycle time, the need for more private cars on the rails and increased lease costs. We also see a wide range of reporting differences between railroads. To monitor and manage service performance we conduct rigorous monthly reporting reviews.

We file customer service logs ('complaints') when we experience poor performance and have even filed a log when we have received outstanding service. Typically complaints are filed for:

- a missed local switch
- cars left behind
- missing dangerous goods documents

### **Mainline Service**

CN has aggressively changed their service model to focus on a "hook and haul" operation adding costs for storage, empty rail movements, etc. to the shipper.

- Available storage on CN has been reduced by 25% since 2007
- Storage which is available, is no longer part of a value added offering and must be purchased
- Additional usage of storage is at tariff rates which is highly variable and additional annual costs exceed one million dollars
- At our Joffre facility, NOVA Chemicals now blocks the traffic and preps the train to minimize on-site time for the CN crew. In the past, this work was managed by the railroad.

### **Intermodal/International Service**

Over the past number of years, CN has aggressively changed their intermodal/international service model and operations in Canada. In 2006/07 CN stopped holding empty containers in terminals. Ocean carriers had to establish empty container terminals for holding. These changes allowed CN to improve terminal utility/profitability but;

- Shifted costs for handling empties to ocean carriers (passed on to importers/exporters)
  - Costs include daily storage rates and additional drayage costs for empty move from rail terminals to empty depots on back to back loads
- Estimated impact to NOVA Chemicals is over \$600K per year

## **Service Change & Efficiency Impacts**

During this same period, CN Rail reduced operating hours at the Calgary/Edmonton intermodal terminals and implemented a reservation system for shipping loaded export containers to the ports. Hours of operation were changed from 05:00 to 21:00 hours to 07:00 to 18:00 hours, resulting in a 35 hour per week reduction. For companies such as NOVA Chemicals who operate 24/7, this impacts our costs for drayage operations (less utility from trucking assets) and constrains our flexibility to ship from the plant to match the terminal hours of operation.

CN Rail implemented the reservation system in order to improve train utilization. Unless exporters are able to plan shipments well in advance, there are no guarantees that containers will make the planned vessel sailing dates. This change, although it improves CN's efficiency and profitability, has created constraints on the supply of train space for export rail moves and shifts risks and costs to the Canadian exporter. Additionally, exporters may not be able to react to short notice selling opportunities due to the inability to execute without extended planning time.

## **Gate Way Protocol**

The forced use of specific gateways by CN has minimized the shipper's ability to optimize freight rates where CP options do not exist.

## **Canadian Supply Chain Reliability**

Labour unrest and rail strikes have impacted Canada's reputation as a reliable supplier of commodities and finished goods. This has been further exacerbated by the continual threat of work stoppages by labour working at Canadian West Coast ports.

## **Recovery Following Major Events**

Service following major, yet recurring events such as winter weather, or disruption from a rail strike is very slow. The playing field is not level. Railroads expect shippers to take cars that have bunched or have demurrage assessed but offer little relief if events are railroad caused.

In the 2007, CN Rail strike's NOVA Chemicals publicly reported losses of \$8MM US after-tax as we experienced reduced service levels at our plants. During the five day strike in 2009, both CN and CP had a drastic increase in operational issues. The service level to our Joffre facility usually runs above a 90% service factor and had dipped and maintained close to 60% two weeks after the strike.

## **Invoicing**

We track non-line haul CN invoices on a monthly basis and on average dispute 50% of CN non-line haul invoices due to incorrect billing as the service didn't take place or the charges are counter to our commercial agreement

## **Storage Rules**

- CN storage prices have increased 40% in past 3 years
- In addition, available spots have decreased by over 20%
- CN is reducing spots available by an additional 60% over the next 3 years

## **Demurrage Rules**

- CN used to charge demurrage when cars were not available to be called in
- CN has changed cargo demurrage calculations without any notice to shippers who may be able to employ other strategies to avoid these costs

## **Empty Moves**

- In 2008 CN took away the privileges of mileage equalization
  - Shippers could no longer move back to back empties using credits they had earned by saving CN empty miles in other areas
- CN modified this position in 2010 which is encouraging, allowing some back to back empties to qualify again under mileage equalization if they met specific criteria
  - More than one switching district, empty is given to CN from a foreign road and CN handle next outbound load
  - Pre-2008 mileage equalization rules were much more favorable than present

Nevertheless, as a general comment, day-to-day performance is more important to a company than an annual or monthly average. In our sector, the consequences of longer transit times are directly related to the railways moving more and more cars on less and less track. This translates into a need for more and more privately leased or owned rail cars and more and more shipper-owned trackage. The bottom line is increased shipper costs and ultimately more line congestion leading to longer transit times.

## **Solutions**

Some suggested solutions for improved rail service are:

- First and foremost, companies need to work with the rail carrier at a variety of levels across the respective organizations (executive to train master to local service crew)
- Shippers should attempt to add language to their contracts that address poor performance
- There should be financial penalties for poor service which include credits or rebates
- All shippers should not be treated the same – if a shipper distinguishes themselves by safe shipping of chemicals, then this should be reflected commercially
- Blocking of traffic by the shipper should also be reflected via commercial benefits
- Re-implement back to back empty moves to minimize congestion on the rail lines minimizing costs to railroads and shippers

## **Best Practices**

The following is a list of best or leading practices:

- Establish key metrics to monitor performance
- Provide feedback and discuss matters based on facts
  - File a formal complaint so service performance can be tracked
- Meet regularly with rail carriers (i.e., operations and stewardship meetings)
- Establish relationships and work across all levels of each organization

## **Closing Remarks**

We welcome the opportunity to input into the Rail Service Review as we recognize that an effective and efficient rail transportation system adds value to our company and the Canadian economy.

Overall, NOVA Chemicals is generally pleased with the rail service we receive. However, improved rail service will increase the competitiveness of Canadian industry by reducing our costs, the costs of the railroads, and ultimately the cost of products to consumers. We endeavour to achieve high standards and work with our rail carries to continuously improve service through effective communication, collaboration and education.

## **Appendix – List of Typical Service Problems Encountered**

### **Local Service**

- Need consistent, regular service window performance  $\pm$  2 hours each scheduled shipping day
- Outbound cars are required to be marshalled properly including blocked by major destination (east/west) with the cars coupled and air hoses hooked up with little incentive to shipper as inbound cars are not blocked (mix of tanks and hoppers)
- Foreign cars get spotted (sometimes dangerous goods cars)
- Some missing dangerous goods documents when cars are dropped off
- Cars delivered that were not ordered in
- Reductions in weekly service at CargoFlo locations with no consultation
- Cars left behind that have been released with no explanation why or no communication on recovery plan
- Crews sometimes do not call ahead for entry or call when leaving and leave gate unlocked and/or open – security issue

### **Line Haul**

- Increased dwell in yards
- Increase in transit times
- Winter service operating planning
- Lost cars (2-7 days)
- Extended bad order delays (3 to 7 days)
- Cars pulled over for 'overweight' or 'imbalanced' by the railroads using the WILD (Wheel Impact Load Detectors) detectors as weigh scales (cars were subsequently released after a few days delay)
- Derailments
- Damage to cars due to railroad handling (sideswipes etc.)
- Accessorial charges ramping up
- Demurrage calculations incorrect