

To: Warden and Members of County Council

From: Director of Public Works

CN Cayuga Subdivision Short Line Rail Review

RECOMMENDATION

- 1. That Oxford County Council receive Report No. PW 2022-28 entitled “CN Cayuga Subdivision Short Line Rail Review” as information.**

REPORT HIGHLIGHTS

- The purpose of this report is to provide Oxford County Council with an overview of the CN Cayuga Subdivision Short Line Rail (SLR) project and its alignment with County transportation and environmental strategic initiatives.
- In January 2022, a rail operator (GIO Rail) reinstated SLR service for freight goods on the CN Cayuga Subdivision from St. Thomas to Tillsonburg (Phase 1). A number of required rail infrastructure upgrades (bridge repairs, cross tie replacements, road crossing upgrades) are required on the rail line over the next three years in order to ensure it is maintained in a state of good repair.
- GIO Rail advises that it plans to invest approximately 43% of the required funding to undertake the required SLR upgrades. SLR infrastructure investment funding support is also being sought through the National Trade Corridor Fund and potential contributions from the province and benefitting municipalities (Elgin County, Norfolk County, Oxford County).
- The positive economic, social and environmental impacts of SLR are substantial and well documented.

Implementation Points

Should application funding be successfully received through the National Trade Corridor Fund (NTCF), it is staff's understanding that the South Central Ontario Regional Economic Development Corporation (SCOR EDC), in concert with the Town of Tillsonburg and the current SLR operator (GIO Rail), will be pursuing additional financial assistance (funding grants) from the province and other benefitting municipalities (including Oxford County) to support infrastructure investments to the CN Cayuga Subdivision line.

Financial Impact

Since GIO Rail re-instated service along the line in January 2022, the number of train cars has been relatively low. Following the previous 2-year gap in operations on the CN Cayuga Subdivision line, it is recognized that it will take some time for GIO Rail to leverage new trade flows which result in increased annual SLR train car volumes. It is currently estimated that the rail line will grow operations to approximately 300, 1,500 and 3,000 train cars in Years 1, 2 and 3 respectively.

The value of goods per train car will vary widely from business to business, with the lowest train car value estimated at \$70,000 and the highest train car value estimated at \$1.4 million. Approximately 26% of train volumes are anticipated to be valued at over \$1 million, with the remainder having a value of approximately \$70,000.

GIO Rail is believed to be contributing approximately 43% of the funding required to undertake the necessary SLR capital infrastructure upgrades to CN Cayuga Subdivision line. Infrastructure investment funding support is also being sought through the NTCF and potential contributions from the province and benefitting municipalities (Elgin County, Norfolk County, Oxford County).

No financial impacts are associated with the information contained in this report; however, a funding request letter (\$150,000 over 3 years - 2023 to 2025) has been received from SCOR EDC and will be circulated to County Council.







Communications

As noted in Report No. [CAO 2017-02](#), Oxford County initiated its advocacy effort with the Federal Minister of Transport and the Ontario Minister of Transportation to implement the reforms necessary to ensure the long-term viability of Ontario's short line railways as outlined in the Canadian Transportation Act Review and Canada's Transportation 2030 policy. As well, SCOR has also specifically advocated to the Ontario Ministry of Transportation with respect to the importance of shortline rail and the Cayuga Subdivision to the region.

Since 2018, County staff have been in liaison with the Ontario Ministry of Transportation, Transport Canada, Western Ontario Wardens' Caucus (WOWC), SCOR EDC and Transport Action Ontario to explore future opportunities related to the expansion of freight and passenger rail across Southwestern Ontario, including advocacy for continued investment into short line rail.

Report No. PW 2022-28 will be circulated to SCOR EDC, the Town of Tillsonburg, Transport Action Ontario and WOWC, upon endorsement by County Council.

Strategic Plan (2020-2022)

					
WORKS WELL TOGETHER	WELL CONNECTED	SHAPES THE FUTURE	INFORMS & ENGAGES	PERFORMS & DELIVERS	POSITIVE IMPACT
1.i	2.ii	3.i	4.i.		

DISCUSSION

Background

As established in Oxford County's 2019 Transportation Master Plan, a vibrant economy requires a sustainable multi-modal transportation system which can effectively and efficiently move people and freight goods. Freight movements rely on efficient highway and freight railway systems. Freight rail effectively serves haul distances in excess of 800 km and typically can do so at 75% less fuel/tonne than transport trucking and with substantively lower greenhouse gas emissions.

Trade corridor freight railway systems are comprised of both main line or Class 1 railways (CN and CP) as well as regional / SLR that often provides the "first and last mile" feeder connections at either end of the mainline freight trips. Oxford County and surrounding areas are serviced by two SLR operators - Ontario Southland Railway and GIO Rail.

While still active in many areas of Southwestern Ontario (including Oxford County), Ontario Southland Railway discontinued operation on the CN Cayuga Subdivision SLR (between St. Thomas and Courtland) since April, 2020. In January 2022, GIO Rail reinstated SLR service on the CN Cayuga Subdivision from St. Thomas to Tillsonburg (Phase 1) as part of an initial ten year lease term. A Phase 2 may include expansion into Norfolk County pending business case viability. The CN Cayuga Subdivision is in close proximity to the CP Galt and CN Dundas Subdivision main lines, providing customers with access to the larger Class 1 rail network across North America.

At the March 9, 2022 Oxford County Council meeting, SCOR EDC and Town of Tillsonburg provided a delegation to Council on the progress of the CN Cayuga Subdivision SLR project, status of current GIO Rail operations and an overview of the potential economic and business development opportunities. Of note, there is over 1,000 acres of industrial zoned property along the CN Cayuga Subdivision SLR within Elgin, Norfolk, and Oxford Counties. There are currently approximately four major regional employers along the rail line, collectively representing over 400 regional jobs.

Following the above noted delegation, staff received Council direction to review the CN Cayuga Subdivision SLR project and report back to Council regarding the SLR project alignment with Oxford County's transportation network strategies.

Comments

SLR supports the People and Goods Movement Strategy as detailed in the 2019 Transportation Master Plan and recognizes freight railways as vital components of Oxford County's multi-modal goods transportation system. SLR plays a highly-specialized role in the functioning of the economies of Canada and Ontario, particularly in rural regions. Operating on light density lines that once belonged to the main line or Class I railways (CP and CN), they provide cost-effective, self-supporting freight service on lines that the major railways could no longer serve under their higher cost structure and less flexible labour agreements.

The majority of the SLR have been established within the last 25 years and have preserved service to many industries that cannot be served physically or economically by transport trucks for a variety of reasons. SLR also provides a competitive business alternative to high-cost, high-carbon highway transport. Further, without SLR service, thousands of carloads of freight would be transferred to local, regional and provincial roads. Without the cost-effective and customer-driven service provided by SLR, several Ontario industries would not be viable.

Short Line Rail Infrastructure Sustainability

The potential of SLR in Ontario is detailed in Oxford County's "Empowering Ontario's Short Line Railways" and "Steel Corridors of Opportunity" reports published in Report [CAO 2017-02](#) and Report [CAO 2018-13](#) respectively.

With only marginal profitability, SLR operators have struggled to overcome the deferred rail infrastructure required maintenance inherited from previous rail owners and operators. Adding to this cost pressure are new safety requirements, a lack of access to federal funding for safety upgrades and a need to improve their infrastructure to handle larger and heavier (130,000 kg) cars which are now standard on the main line Class 1 railways.

Due to lighter rail line car traffic volume and revenues, as well as large operating expenditures, Ontario's SLR operators typically have operating ratios of 92%, leaving only 8% of revenues for capital replacement and the generation of a return on investment. As noted in Report CAO 2017-02, this is less than one-third of the 25% required to ideally meet the entire rail industry's normal level of capital expenditures.

For the CN Cayuga Subdivision line, GIO Rail faces a number of required SLR infrastructure upgrades over the next three years (first phase), including bridge repairs, cross tie replacements, rail spurs/sidings and road crossing upgrades across approximately 37 km of rail line. In doing so, the SLR infrastructure will be upgraded to a higher rail car weight limit which will meet Class 1 rail line weight requirements and serve to enhance the overall speed, capacity, reliability and efficiency of train traffic.

The long term sustainability for this SLR operation will be partially dependent on the ability to fund and undertake these required infrastructure improvements. It can be reasonably expected that continued capital investment (beyond initial Phase 1 contributions) will be required in the future in order to maintain the rail line in a state of good repair. Such capital undertakings serve as a means to optimize the appropriate utilization of existing rail infrastructure.

Short Line Rail and Main Line Rail Integration

Supporting reinvestment in the CN Cayuga Subdivision will provide an east/west connection along the southern part of Oxford County from Tillsonburg to St Thomas. The SLR interchanges with the CN line in St. Thomas which runs north to London where it interchanges with the CN Class 1 main line (Windsor to the Greater Toronto Area).

The CN Cayuga Subdivision SLR also physically interchanges with the north/south CP line at the Tillsonburg Junction which runs north to Ingersoll (Tillsonburg to Ingersoll SLR). SLR (CP line) from Ingersoll then extends both to the west with terminus in St. Thomas (Pere Marquette Junction) and east to Woodstock where it interchanges with the CP Class 1 main line (Windsor to the Greater Toronto Area). These SLR segments (CP line) are currently operated by Ontario Southland Railway (OSR) and responsible for a significant number of railcar movements into Tillsonburg and St. Thomas.

The re-instatement of rail service on the CN Cayuga Subdivision has the potential to support the increased viability of the OSR SLR operations (CP line); however, the CP line section that runs from Tillson Avenue in Tillsonburg to the CN Cayuga Subdivision line interchange is not currently in operation due to required rehabilitation needs. Should OSR undertake potential upgrades to the above noted section of the SLR (CP line), GIO Rail freight transport on the CN Cayuga Subdivision SLR may be further integrated with OSR SLR (CP line) at the Tillsonburg Junction where it could be transported from Tillsonburg through Ingersoll (in close proximity to another transportation hub – the Tillsonburg Regional Airport).

The benefits of an interconnected system that offers service by two Class 1 railways cannot be understated as this offers the opportunity for efficient and cost effective service, i.e. use of only one Class 1 railway from the point of origin to the local SLR operator instead of two Class 1 operators (which adds delays and cost to the shipment of goods).

Conclusions

Ontario's private and municipal SLR owners and operators are at a critical junction. They play a significant role within the multi-modal freight transportation system and have demonstrated a willingness to invest their own funds to provide service to many businesses that cannot be served physically or economically by transport trucks for a variety of reasons.

As well, freight rail continues to play an important role in any effective action to address climate change and aligns closely with Oxford County's environmental sustainability initiatives by serving to reduce high-carbon fossil fuel consumption and greenhouse gas emissions.

SLR owners and operators remain considerably constrained by their marginal profitability and limited financial capacity. In this regard, staff encourage municipal support and investment in to SLR, and continued advocacy for similarly appropriate provincial and federal funding contributions to the same.

SIGNATURES

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