



**CANADIAN
PACIFIC**

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September 28, 2011

The Honorable Daniel R. Elliott III
Chairman
Surface Transportation Board
395 E Street, SW
Washington, DC 20423

Subject: End of Year 2011 Railroad Service Outlook

Dear Chairman Elliott:

Thank you for your letter of September 6, 2011, regarding Canadian Pacific's ("CP's") plans for responding to the demand for U.S. rail service during the balance of 2011.

As your letter recognizes, while traffic has rebounded, we continue to experience both uncertainty in the economic climate and volatility in volumes tendered for movement. However, with the initiatives, investments, and on-going business processes described below, CP is well-positioned to handle increased traffic volumes safely and efficiently.

CP values its customers' business and we strive to be an effective partner in their efforts to grow. We work closely with our customers on a daily basis to understand their requirements, adjust our services to meet those requirements, and to develop accurate traffic forecasts. We encourage and facilitate demand leveling in order to balance daily workloads throughout the supply chain and reduce the potential for congestion not only on our railroad, but at ports and terminals as well. Continuous customer communication is the foundation upon which CP's Integrated Operating Plan ("IOP") is built.

CP responds as follows to the specific questions set forth in your letter:

1. A summary of the impacts that recent flooding and other extreme weather conditions have had on CP's system and the effort your railroad has undertaken to restore damaged infrastructure and restore service.

Record snow falls in the Twin Cities, Chicago and the Dakota's, extended periods of record low temperatures, and flooding impacted CP's system in the first half of 2011.

The heavy snow accumulation then resulted in severe flooding levels at various locations on our network. CP took action to protect its facilities at St. Paul Yard, the Quad Cities area of Iowa and throughout the Red River Valley in North Dakota, including redirection of yard work and diverting operations to alternate routes. CP managed through a nine-day outage of its mainline track in the Quad Cities area as well as a fifteen-day outage of its mainline in the Red River Valley caused by record spring flooding levels. As an example of the impact, the Red River Valley flooding put approximately 30 miles of track under three feet of water washing out a total of 6,200 feet of track.

CP's North East Operations through our New York and Pennsylvania Corridors were impacted by Hurricane Irene and remnants of Tropical Storm Lee. This late summer, a flash flooding event closed down CP's mainline for seven days.

In response to all these events, CP incurred substantial expense to repair damaged infrastructure, reroute traffic, and maintain the highest levels of customer service possible in the face of extreme and unprecedented conditions. In each case, we took proactive action to mitigate the effects and aggressive actions to recover and return service levels as quickly as possible.

And our efforts have not stopped there. We are in the process of adding additional culverts to provide higher flow capacity for drainage. We are stockpiling rip rap at strategic locations to speed the recovery from a flood event. We are elevating tracks at key locations and undertaking hydrologic surveys to identify other areas where we can proactively armor our infrastructure against future events.

Finally, our capital investments described later in this letter are focused on providing routing redundancy on our network. An example of this, are our investments on the Portal and Noyes corridors. This will allow us to shift traffic between these corridors and keep traffic moving in the face of extraordinary events in future.

2. The overall actions your railroad will take to prepare for the end-of-year shipping season with specific references to critical commodity areas such as: agriculture (e.g., grain, grain products, and ethanol), coal, petroleum, chemicals, and intermodal.

CP works diligently on an on-going basis to deliver efficient and reliable service to our customers. Demand planning is a core business process at CP. It plays an important role in our success in responding to seasonal fluctuations in traffic. Overall responsibility for demand planning is exercised by a cross-functional team that integrates current and forecast demand information with our service planning in order to ensure that all elements of the capacity equation – including cars, locomotives, crews, interline connections, terminals, and yards – are properly aligned.

CP develops an annual demand outlook, by commodity and business sector, to provide a foundation for the base service plan and estimated resource requirements for the following calendar year. Those annual forecasts are updated monthly during the year, allowing us to make proactive adjustments to our service plan as necessary.

Direct customer input is a critical component of CP's demand planning process. CP meets regularly with key customers to ascertain their views regarding demand, volume flows, and market risks. When unforeseen changes in demand occur, we convene daily calls with key customers and port facilities to discuss those events and to determine whether adjustments may be required to maintain efficient and fluid operations. CP participates regularly in customer and commodity group conferences to review and validate demand projections.

CP also conducts independent internal analyses to enhance our understanding of key demand drivers and to validate short and long-term forecasts. To support those efforts, we have implemented a sophisticated forecasting system that takes into account macro-economic factors by industry segment to project demand by specific origin-destination pairs. This supports the granularity required to design and execute both our service and resource planning processes. Our Marketing and Operations teams meet regularly to review changes in demand and develop an appropriate response to such changes.

As the 2011 end-of-year period progresses, we will utilize these ongoing business processes to match demand with appropriate resources; develop a deliverable service plan that reflects both available resources and realistic performance targets; and adjust our IOP to serve our customers safely and efficiently.

3. A summary of the investments you have made in freight service and capacity improvements for the past year, and your anticipated rail congestion points and plans to improve them, with specific attention to mitigating potential winter storm related interchange issues in Chicago.

CP's annual capital program typically includes investments in track and roadway (including rail yards, bridges, and signals), buildings, rolling stock including freight cars and locomotives; information technology; terminals and other equipment. On an accrual basis, CP invested approximately \$ 3.2 billion in our core assets between 2007 and 2010 with annual cash capital spending over this period averaging approximately 16% of revenues. Those investments included approximately \$2.3 billion for track and roadway of which \$157 million related to capacity projects on various segments of CP's Core Network ; \$261 million for locomotives including acquisitions of \$79.5 million in 2008 through a Capital lease; \$43 million on programs to rejuvenate its Freight Car fleet; \$203 million for information technology to among other items, expand the transparency and visibility of shipment information to our customers; and \$340 million for terminal and other equipment. Total capital investments for 2011 are expected to be in the range of \$950 million to \$1050 million on a cash basis across its North American network. CP expects approximately \$300 million of its total Capital Program will be invested on its rail network located in the United States.

A specific example of CP's investment in mobile assets is the addition of 91 locomotives in 2011 and 2012. Coupled with our investments in maintenance facilities to create Locomotive Reliability Centers, we will continue to improve both the availability and reliability of our locomotive fleet.

CP continues to pursue projects to improve throughput and fluidity at several locations that support our U.S. grain exports, Ethanol and Bakken volume growth and cross-border trade routes. For example, construction is now underway on a number of capacity infrastructure projects on our Moose Jaw to Chicago main line to support growth and service reliability. These projects include improvements to our interchange with the Dakota, Missouri Valley, and Western Railway at Flaxton, ND, and capacity improvements to our yard facilities at Harvey, Max, and Enderlin, ND. In addition, we are re-investing in our Newtown Subdivision between Drake and Newtown, ND in order to meet the needs of crude oil shippers engaged in production of the Bakken oil fields. In 2011, these capacity investments will be in the order of \$40 million.

In aggregate, these investments will help us "armor" the network from future unplanned events. They will position us to be more nimble and have routing redundancy to deal with severe unpredictable weather patterns and potentially changing traffic patterns.

The historic blizzard that passed through Chicago in early February 2011 brought 60 mph winds and deposited approximately 20 inches of snow in its wake. It resulted in the first ever Service Alert Level 3 declaration affecting all Class 1 road operations within the Chicago interchange facility. It would be extremely difficult to introduce changes that fully mitigate the effects of future severe weather events in the Chicago area. However, operating plan changes made to how we respond in future and the placement of a dedicated representative within the Chicago interchange facility will further enhance the overall resiliency of this important railway interchange next winter. CP continues to support both the Chicago Transportation Coordination Office (CTCO) and the Chicago Planning Group (CPG) in their efforts to streamline information exchange and coordination of operations.

CP is also expected to spend \$13 million in Illinois in 2011 to 2012 as part of its commitment to the CREATE program specifically aimed at alleviating rail traffic congestion in Chicago.

In summary, CP is committed to making infrastructure investments where such expenditures are economically justified and to relentlessly pursue ways to increase effective capacity by optimizing the utilization of existing resources.

A strong and vibrant North American economy requires a safe and efficient freight rail transportation system. Legislative and regulatory certainty that is conducive to investment is critical to enable CP (and other carriers) to meet the future needs of shippers.

4. A summary of any issues your railroad is encountering with the on-going integration of the DM&E, such as shortages of labor and equipment.

Pursuant to the Board's decision authorizing CP's acquisition of DM&E, CP assumed control of DM&E on October 30, 2008. The acquisition of DM&E extended the reach of CP's U.S. rail network, provided access to new sources of traffic (including ethanol), and expanded the single-system rail services available to customers of both DM&E and CP. As indicated in the DM&E control proceeding, CP has and is making substantial investments in DM&E's infrastructure in order to enhance the safety and fluidity of DM&E's rail operations.

The DM&E and CP train operating plans were integrated promptly upon consummation of the control transaction in 2008 and continue to be adjusted as necessary to meet customers' requirements.

CP's filing with the Surface Transition Board outlined our Safety Integration Plan Accountability (SIPA), which committed to integration and transitioning of DM&E processes and practices to align them with those of CP. Training activities are complete for the identified areas of integration: Bridges & Structures, Signals & Communications, Wayside Inspection Systems, Earthquake Notification, Track & Roadway Maintenance and Inspection, and Engineering Rules Training and Promotion. With respect to specific infrastructure concerns related to legacy (in-track) defective rails and compliance with FRA requirements, the removal of legacy defective rails was completed in 2010. CP implemented electronic recording of inspections in 2011 for track, signals and bridge inspections in order to audit compliance with FRA requirements.

Despite on-going hiring and training of engineers and conductors, we have experienced proportionately higher change in this region resulting from employment alternatives and attrition levels. In addition, we have experienced significant growth in business levels off the DM&E as we have worked with customers' to expand their business. We have and will continue to deploy aggressive hiring efforts to manage this situation until the crew base stabilizes. Network wide CP will be hiring 3,300 new employees.

As indicated to you last year, the transfer of our Customer Service function from the former Dakota, Minnesota & Eastern (DM&E) office in Sioux Falls to the CP office in Minneapolis was completed and part of an important, longer term strategy to streamline our Customer Service processes and technology capabilities across our North American customer base. This is consistent with our work to establish one US operating entity that encompasses the former DM&E, D&H and SOO properties.

Our 2011 plans include approximately \$62 million of Capital expenditure on CP's DM&E property including \$54 million on Track & Roadway per our multi-year commitment to improve the safety and robustness of this railway during the acquisition process. The DM&E is also the location of CP's piloting of Positive Train Control technologies.

5. Developments in passenger rail service access and performance (Amtrak, Commuter or high-speed rail).

CP granted access in July 2011 for the Saratoga and North Creek Railway to access a small segment of CP track at Saratoga Springs, New York. We have assisted this railway to mount a successful passenger excursion service. Freight service by this railway, connecting with CP at Saratoga Springs, is expected to follow at a later date.

CP is working with the State of Wisconsin to enable commissioning and access of new Talgo passenger coaches and cab cars on CP between Milwaukee, Wisconsin and Rondout, Illinois commencing in second quarter of 2012. These trains, operated by Amtrak and powered by Amtrak locomotives will displace existing conventional Amtrak passenger coach equipment and cab cars in late 2012 or early 2013.

CP is a participant with passenger rail investment projects that are funded pursuant to the American Recovery and Reinvestment Act (ARRA):

In Wisconsin, CP will install crossovers, hot-box detector set-off tracks, updated hot-box detector electronics and other improvements on its line between Milwaukee and the Illinois/Wisconsin border. These investments are designed to improve reliability on an important freight corridor that supports sixteen daily Amtrak trains.

CP is participating with Ramsey County, Minnesota in a study that will lead to configuration of new support tracks to support the revitalized Union Depot at St. Paul. The tracks will accommodate a new stop for Amtrak's Empire Builder service at St. Paul, replacing the existing stop at Merriam Park in the Twin cities.

The State of Illinois is a funding participant for renewal by CP's renewal of two double track bridges near Wadsworth, IL on CP's busy Milwaukee – Chicago main track. The State is deploying 50% of the required funds using funds secured through the ARRA Program. Preparations for replacement of the bridges are occurring this year and actual replacement will occur next year.

In New York State, CP will construct 2.2 miles of second main track connecting Ballston Spa Siding and Saratoga Springs Yard. This investment will assist with segregating freight and passenger flows train to assist reliability for four daily Amtrak trains.

And finally, CP is participating with addition by Amtrak of Americans with Disability Act (ADA) improvements at stations on CP lines in New York, Wisconsin, Illinois and Minnesota.

Amtrak end to end on time performance of trains hosted on CP for the last twelve months are Ethan Allen 63%, Adirondack 56%, Hiawatha 88%, and Empire Builder 70%. CP is committed to working with all stakeholders to continuously improve the performance of passenger trains operating on CP lines.

6. A report on your company's most recent customer service survey.

CP collects customer feedback via its Customer Service team, which responds directly to customer questions and concerns on a day-to-day basis. CP also has "dedicated" customer service representatives who work directly with our customers. This dialogue with our customers drives continuous focus and improvement on the reliability of our services. For instance, our Service Reliability Program for first and last mile service, which we introduced in 2010 and continue to rollout across our network, has its roots in this ongoing monitoring and dialogue process. We will be expanding our approach to collecting input on our products and services, through the establishment of a regular and comprehensive survey process of our customer base.

7. Conclusion

CP establishes a variety of performance goals that are designed to improve service reliability, system fluidity and maximize peak throughput capabilities. CP's IOP is built on the core design principles of velocity, balance and network. We believe that by adhering to those principles, CP can deliver more consistent services from the planning stage through execution. Adherence to our core principles, and a strong emphasis on operational excellence, has enabled CP to achieve substantial improvements in both safety and service performance over the past several years.

CP is investing with our customers for service reliability and productivity to further drive future growth. We are well positioned to handle forecast demand while, at the same time, contributing to improvements in the overall supply chain by reducing dwell and maximizing throughput. Our commitment is to provide the products and services that will enable our customers to grow their businesses at home and globally.

Sincerely,



Mike Franczak
Executive Vice-President, Operations

cc: The Honorable Ann D. Begeman, Vice Chairman
The Honorable Francis P. Mulvey, Commissioner
Mr. Edward R. Hamberger, AAR