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July 19, 2004

Mr. Roger Nober  
Chairman  
Surface Transportation Board  
810, 1925 K Street N.W.  
Washington, D.C.  
20423 - 0001

Dear Mr. Nober,

Thank you for your letter of June 9, 2004. Your request was timely in that we have been actively reviewing our requirements for the future, not only for the Fall of this year, but for several years into the future.

Today, our railroad faces a surge in traffic growth across a range of products, including bulk commodities - grain, coal, potash - as well as import/export intermodal container growth. The traffic growth comes at a time when parts of CPR's transportation infrastructure in North America is at, or close to, its sustainable operating capacity. Even with partnerships with other railroads, it is becoming a challenge in some corridors to meet the demand for rail service.

The expectations by customers and governments is that CPR should dramatically increase its already substantial investment in our infrastructure to meet our customers' requirements and to be a full partner in the on-going economic growth of the North American economy. This is a significant challenge for our company.

In last five years we have invested US\$2.2 billion in our network. To generate the necessary investment, CPR must consistently earn the cost our capital. Our return on investment over the same period has been below regulated levels. Our cash flows during the past five years have been cumulatively negative. These indicators are clearly not enough to meet the required future investment levels nor to satisfy stockholders and outside capital providers who insist we demonstrate a compelling need for further capital investment and that the investment will result in acceptable rates of return. The result is that the investment capital required to meet our demands may not be available.

To proceed with required substantial investment program CPR will require shipper acknowledgement of the need for higher rates and a stable regulatory environment over the long-term. Competition and market forces are still the best choice in determining rail rates and service standards in most cases.

Legislative and regulatory certainty is critical in terms of decisions regarding significant investment in fixed assets. Any suggestion of reregulation or return to heavy-handed government regulation of railroads would cause immense harm by preventing CPR from making the investments needed in infrastructure that will benefit North American business and communities. In fact, reregulation would lead to disinvestment in our rail network, an outcome completely at odds with needs of the economy. I would encourage you and members of the Surface Transportation Board not to initiate anything that would detract from the impressive efficiency and service gains our industry has made, and continues to make.

Your questions around the 'Fall Peak' are but one part of the larger question of rail capacity and infrastructure growth. We are working hard to meet our customers' requirements and the attached document outlines the actions we have and are taking in the short and medium term regarding the Fall Peak. However, much more needs to be done and that will require certainty in terms of our ability to achieve the necessary return on investment and cash flows, as well as clarity in terms of regulation to make the investments a vibrant and responsive rail system requires.

We value our customers' business and the relationships we hold with them. Our interest remains in seeing them grow and prosper and that rail is an integral part of their business success.

I would be pleased to meet with you to discuss our efforts to meet customers needs and to address any concern you or members of your team may have in regards to this matter.

Sincerely;

A handwritten signature in black ink that reads "Rob". The letters are stylized and cursive.

Rob Ritchie

Enclosures

cc: The Honorable W. Douglas Eutrey  
The Honorable Francis Mulvey  
The Honorable Allan Rutter  
Edward R. Hamberger

## 2004 FALL PEAK

### **1. DEMAND PLANNING**

Let me start by emphasizing that demand planning is a critical business process at CPR. Constantly changing markets, supply-side lead times and the need to effectively update our customers on an ongoing basis requires that this exercise be disciplined, detailed and forward looking.

The following are some of the key components of CPR's demand planning process:

- annual demand outlooks designed to initiate base plans for an upcoming calendar year.
- rolling monthly updates by specific commodity and business sector to ensure we are always working with the latest and best information and thus able to react where possible to augment the base plan.
- directly linking demand information to our supply side planning and covering all elements of the capacity equation, viz. cars, locomotives, crews, interline connections, terminals and yards.

Customer input is a critical component of this process. Given the booming freight market we are witnessing across North America, customer dialogue around forecasts has been deemed extremely high priority.

- as such, CPR has met with all key strategic customers to ascertain their views on demand, mix, flows and market risks. Focused discussions on the fall outlook were paramount in these meetings. The majority of these meetings took place during May and June.
- in addition, CPR also relies upon the regular day-to-day information that is developed by all marketing personnel in their routine customer discussions.
- at the same time, CPR undertook independent and internal studies to determine the broader profile of various commodities and the drivers of demand. The purpose was to develop as clear an understanding as possible around the demand, not just for the short term, but the longer term as well. This information is currently being assimilated to better quantify medium term demand by corridor on CPR lines.

On an ongoing and regular basis, very specific activities are undertaken on a commodity basis to gain an understanding of the demand. Grain is a good example and following is a snapshot of our approach in this area:

- extensively analyze industry data (USDA Sods) to develop grain shipment forecasts.
- consult with CPR's Shipper Advisory Boards (approx. 10 elevator managers from the west and east territories of CPR's Northern Plains network).
- review outlooks with the merchandising side of the gringo's
- meet with all stakeholders to review crop assumptions and forecasts, seeding intentions, market developments and weather related issues.
- remain abreast of global demand assessments.
- continuously monitor production and weather impacts from USSDA ND & MN Ag Stats along with consultations with exporters, commercial grain companies, elevator managers.

### **2. PREPARING FOR/MEETING "THE PEAK" DEMAND**

In looking forward to this fall's demand, it is safe to say that the general strength in North American freight markets will continue. Healthy commodity markets, tight truck supply and robust import volumes will continue to pressure the entire transportation network across all modes.

This fall, CPR will face these same pressures. In mobilizing to perform effectively this fall CPR is proceeding as follows:

- current demand outlooks are matched against available resources.
- a "deliverable service plan" or offering is developed reflecting available resources and realistic performance targets.
- CPR's Product Design group updates our Integrated Operating Plan (schedule) to ensure that our offering provides the best balance between realistic deliverables and demand. The revised integrated operating plan takes into account all resources, including car supply, crews, power, and track capacity.
- continuously communicate and signal the marketplace with respect to our capabilities.

Typically, for CPR, the "Fall Peak" is driven by seasonal bumps in grain, fertilizer and intermodal demand. The balance of the traffic remains relatively stable during the fall period. For this reason, and because it represents a large part of our US presence, we will first address the specific initiatives around grain.

As a result of the current demand forecast, availability of additional cars and other mobile resources, and the operating plan created for the balance of 2004, CPR has, for grain:

- redesigned the entire products and services portfolio to better match CPR resources to market demand;
- implemented a new grain operations planning process to maximize system capabilities – a new "pipeline management system", with additional resources;
- developed service plans with lease line partners to ensure smooth operational Interfaces;
- developed detailed plans to maximize PNW export grain capabilities;
- initiated meetings with major interline partners to review operating issues and maximize interchange fluidity and over-the-road performance for joint-line traffic. The forecast for the balance of the year provides that 55% of CPR's U.S. originated grain will be delivered to connecting carriers. CPR's major interline partners are the UPRR to the PNW, the NS and CSX to eastern milling destinations and BNSF to various destinations. CPR relies on the UPRR and BNSF for efficient pipeline management of the PNW export gateway as well as joint operating coordination of shuttle train movements. With the eastern carriers, CPR relies on efficient interchange practices in the Chicago area as well as prompt empty return of CPR equipment to meet our Customers' shipping needs to eastern markets.

Although Intermodal is not as large a presence in the U.S., it has huge variances with peaks ranging 10% to 20% higher than non-peak months. To maintain system fluidity, CPR has:

- Introduced an allocation system at the Port of Vancouver for all intermodal, including international traffic to Chicago.
- a process to minimize the extent to which rail capacity is consumed by repositioning empty containers.

### **3. PERFORMANCE GOALS**

Overall, CPR has performance goals on a number of measures, including those you referred to in your letter. More specifically, with respect to the grain fall period CPR has identified the following goals:

- solid train order fulfillment will be current as of October, 2004.
- guaranteed freight (auction and car programs) will be current by October 2004.
- cycle time targets in major corridors:

- a. PNW: 24 days
  - b. Twin Ports: 17 days
  - c. Eastern US: 32 days
- fill all solid train (shuttle type) orders within 14 days.
  - deliver 30 trains per month to the PNW.

#### 4. CPR'S PLANS FOR ACHIEVING PERFORMANCE GOALS

To support our fall performance goals, CPR has taken several actions. These include the following actions:

- advanced the lease of 500 covered hoppers to bring our total fleet to 26,400 – 26,600 (likely somewhat lower than 2003 level (record level)).
- added 75 new locomotives in 2004. This includes advance delivery of our 2005 order for 34 locomotives.
- hired additional crews to man the trains in our Northern Plains district and across the grain "system" (approximately 160 in the U.S.).
- added capacity on several routes. With respect to U.S. operations, these investments will increase capacity at 3 key gateways serving our U.S. property by one train each. This includes:
  - a. \$2.8 M Portal Gateway
  - b. \$3.0 M Cranbrook/Kingsgate/Eastport gateway (with UP)
  - c. Track programs at Emerson/Noyes
  - d. \$1 M at Enderlin, ND
- implementing new yard management system (TYES) to be complete by year-end which will enable greater yard fluidity.
- continue working with partners to maximize capacity over gateways and interchanges, particularly with UP at Eastport/Kingsgate.
- the scheduled work programs to build this incremental capacity is to be essentially complete by October 1<sup>st</sup> and thereby maximize this new capacity for the fall peak.

Many other actions not directly impacting U.S. operations have been taken and are planned for the expected demand that apply to other commodities, or generally. All have the goal of ensuring robust operations and system fluidity. These actions range from fleet renewals (intermodal "MAXSTAX") to operating systems improvements.

#### 5. COMMUNICATIONS WITH CUSTOMERS

CPR engages in communication with customers at many levels. In preparing for the "Fall Peak", there are some specific activities:

- CPR reviewed many challenges in relation to demand with its key customers during May/June.
- many discussions with grain customers to review new products and services and to determine how best to resolve earlier demands.
- meeting scheduled by AAR in Kansas on September 9<sup>th</sup>.
- presentation at TEGMA grain industry group in Kansas City on September 2<sup>nd</sup>.
- developing a more regular communications process in ND
- meeting with industry representatives/organizations ("VIP" train trip, WESTAC Vancouver conference, August 24<sup>th</sup>).
- meeting on July 13, 2004 with staff of the Lieutenant Governor of ND.