



**CANADIAN
PACIFIC
RAILWAY**

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

Dear Mr. Nober:

Thank you for your letter of June 15, 2005, regarding Canadian Pacific Railway's preparedness for the "fall peak" shipping season.

Your questions on preparedness are but one part of the larger question of rail capacity, infrastructure growth, and a supportive policy environment for investment. CPR continues to work hard to meet all our customers' shipping requirements and is building on the work we have done in the past number of years.

The attached document outlines the actions we have taken and are taking in the short and medium terms regarding the fall peak. However, much more needs to be done. This will require certainty in terms of our ability to achieve the necessary return on investment and cash flows. It will also require a regulatory environment that encourages private industry to make the necessary investments required to have a vibrant and responsive rail system.

We continue to see a surge in traffic growth across many product lines. Our commitment to the strength of these markets was demonstrated in April with the announcement of a Cdn \$160-million expansion program to increase capacity by up to 12% in key areas of our network. This expansion investment is in addition to planned 2005 capital investment of Cdn \$760-million that includes a number of specific projects to increase capacity and improve the transportation fluidity to the Pacific Northwest ports.

The addition of infrastructure is an effective means of increasing capacity and we believe will allow us to handle current demand for this fall. However, the extremely high cost limits infrastructure expansion to areas that have stable and sustained underlying growth. It also requires that we relentlessly pursue non-infrastructure means to fully utilize existing capacity before expanding. A collaborative effort is required between railroads, shippers, receivers, ports, and governments to ensure our collective success.

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As an example, the continent's railroads operate virtually every hour and every day of the year. A substantial number of our partners and industries do not. As participants in an integrated supply chain, all players must respect the necessity of dealing with time, distance traveled and delivery expectations. Transportation is a 7/24 business that cannot make its maximum economic contribution if constrained by supply chain partners who are working a five-day schedule. The congestion and capacity issues associated with volume crests are significant. A coordinated national strategy to utilize existing infrastructure can defer or reduce billions of expansion dollars required for our highways, ports and railways.

For those situations where expansion is the best answer, a substantial and ongoing investment program requires consistently earning our cost of capital. With capital investment exceeding US\$2 billion over the past five years and cumulatively negative cash flows, this has been a significant challenge for CPR. Generating adequate returns requires continued shipper acknowledgement of the need for higher rates as well as ongoing regulatory stability. Our ability to secure capital depends on it. 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 restricting CPR's ability to make the investments needed in infrastructure that will benefit North American business and communities. In fact, reregulation could lead to disinvestment in our rail network, an outcome completely at odds with the 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.

The 'fall peak' is not a special season for us. We value our customers' business and the relationships we hold with them all year round. Our primary interest remains in seeing them grow and prosper and ensuring 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,



Rob Ritchie
President & Chief Executive Officer

Enclosures

cc: The Honorable W. Douglas Buttrey, Vice-Chairman, STB
The Honorable Francis Mulvey, Commissioner, STB
Edward R. Hamberger, AAR

Appendix

2005 FALL PEAK

1. DEMAND PLANNING

CPR has worked diligently over the past year to deliver consistent and efficient products to the market place. Demand planning, a core business process at CPR, has played a major role in our success in this area and is the foundation for effective "peak planning".

The key components of CPR's demand planning process include:

- o overall accountability centralized in a comprehensive cross-functional team that on a regular basis directly links demand information to our supply side planning to ensure alignment of all elements of the capacity equation, viz. cars, locomotives, crews, interline connections, terminals and yards.
- o annual demand outlooks designed to initiate base service plans and resource requirements for the upcoming calendar year.
- o monthly updates by specific commodity and business sectors which allows for proactive adjustments to the base plan as required.

A critical aspect of CPR's demand planning is direct customer input. Given the healthy freight market we are witnessing across North America, customer dialogue around forecasts remains an extremely high priority. As such,

- o CPR has met with all key customers to ascertain their views on demand, volume flows and market risks.
- o CPR has undertaken independent and internal reviews to better understand key demand drivers and validate demand, both short and long term.

As part of our ongoing demand planning, specific assessments are undertaken on a market segment basis to remain current with demand trends and developments. Grain is a good example and following is a snapshot of our approach in this area:

- o extensively analyze industry data to develop grain shipment demand forecasts. (USDA Sods)
- o consult with CPR's Shipper Advisory Boards (approx. 10 elevator managers from the west and east territories of CPR's Northern Plains network) to review crop assumptions and forecasts, seeding intentions, market developments and weather related issues.
- o validate outlooks with the merchandising side of the grain companies.
- o continuously monitor market, production and weather impacts from USSDA ND & MN Ag Stats along with consultations with exporters, commercial grain companies, and elevator managers.
- o solicit shipper feedback on the suitability of our product offerings in relation to market developments.

2. PREPARING FOR/MEETING "THE PEAK" DEMAND

In looking forward to this fall's demand, all signs suggest that the fundamental strength in North American freight markets will continue.

We plan to proceed as follows:

- o match current demand outlooks against available resources.
- o develop a deliverable service plan or offering reflecting available resources and realistic performance targets.
- o leverage our Integrated Operating Plan (IOP) to most effectively serve known demand. The IOP defines specific operational responsibilities and establishes common goals for delivering consistent and reliable train service. With clear objectives, and the effective use of processes and controls, CPR is able to keep traffic patterns fluid and maximize the operating capacity of our system.
- o continuously communicate and signal the marketplace with respect to our capabilities.

As in most years, this Fall's Peak will be driven by seasonal demand for the movement of grain, fertilizer and intermodal traffic. As grain represents a large part of our US presence, we will first feature the specific actions we are taking in this market.

Grain program enhancements:

- o an updated suite of products and services that match CPR resources to market demand.
- o joint service plans with lease line partners to ensure smooth operational interfaces at the movement origination.
- o implementation of specific trainload services to maximize PNW export grain capabilities.
- o meetings with major interline partners to institute operating plans to maximize interchange fluidity and over-the-road performance for joint-line traffic.
- o proactively manage our grain supply chain through our new Grain Shipment Management Team.
- o additionally, we are testing a PNW capacity enhancing "export shuttle" product that if successful will be implemented for fall service.

Although intermodal has a somewhat smaller presence in our U.S. operations, this segment does exhibit significant seasonal variances with peaks ranging 10% to 20% higher than non-peak months. To enhance system fluidity CPR has:

- o introduced an import allocation system at the Port of Vancouver for all intermodal, including international traffic to Chicago and the U.S. Mid west. This system also provides shippers with clarity on supply.
- o implemented a Port of Vancouver to Chicago intermodal direct train service focusing on flows and balance.
- o implemented a process to minimize the extent to which rail capacity is consumed by the repositioning of empty containers.
- o expanded the capacity at our Bensenville Intermodal terminal.

3. PERFORMANCE GOALS

CPR has a variety of performance goals designed to improve system fluidity and hence peak throughput capabilities. Key goals impacting system fluidity and our capability to meet demand this year include:

- a. train speed increases of 2-3%
- b. terminal dwell decreased of 5-10%
- c. increase car miles per day by 5%

4. CPR'S PLANS FOR ACHIEVING PERFORMANCE GOALS

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

Cars

- o advanced the lease of 500 covered hoppers to secure an active fleet of approximately 26,500 cars.
- o added 500 center beams to the fleet to increase lumber hauling capacity.
- o increased Intermodal "stand-alone wells" by over 500 since January.

Locomotives

- o Continuous review of our locomotive fleet requirements including 40 additional locomotives in our 2005 Capital Plan.

Crews

- o in 2004 we added approximately 160 train crew employees to operate the trains in our Northern Plains district and across the US grain "system". This year we will add close to 400 incremental train crew employees to our system and of this over 100 will be U.S. based.

Yards & Terminals

- o completed field implementation of our yard management system (TYES) to facilitate processing improvements and enable greater yard fluidity.
- o created a new functional team to develop and support improved yard operations performance – decreased shipment dwell time in yards and faster shipment transit time.

Interline Processes

- o continue working with partners to maximize capacity over gateways and interchanges, particularly with UP at Eastport/Kingsgate and via our new Detroit – Chicago co-production arrangement with Norfolk Southern.

Winter Planning

- o CPR's winter planning program for 2005-2006 is complete; this will permit CPR to provide the best service possible should winter arrive early.

5. CAPACITY

- CPR is currently undertaking a major capacity expansion on our Western corridor involving 25 sub projects with a total 2005 cost of \$160 Million. It will improve capacity by 12% and will enhance our route structure from Canada's Pacific coast to the United States.
- in addition to this major initiative, CPR is also employing "rifle shot" tactics to improve throughput and fluidity on several route segments which support US grain exports and cross-border trade routes. These include:
 - a. three sidings between Dunmore, Alberta and Crowsnest, British Columbia increasing capacity by 25%.
 - b. two sidings between Moose Jaw, Saskatchewan and Glenwood, Minnesota increasing capacity by 7%.
 - c. increased yard capacity at Thief River Falls Minnesota, which will provide a fluidity improvement between Winnipeg, Manitoba and Glenwood, Minnesota.
- capacity is also a function of accurate shipper forecasting, coordination, demand management and leveraging 24x7 round-the-clock operations. CPR will continue to aggressively pursue these opportunities as we work with our customers in planning for and operationalizing the fall peak.

6. COMMUNICATIONS WITH CUSTOMERS

CPR engages in communication with customers at many levels. In preparing for the "Fall Peak", there are some specific activities either just completed or planned. These include:

- key customer meetings and participation in numerous customer and shipper/commodity conferences in May and June to review and validate demand.
- on-going discussions with grain customers to review new products and services and to validate supply and demand assumptions.
- meeting on July 21, 2005 with the Governor of North Dakota to outline operational plans.
- September conference with the Short-line industry to engage this partner group.
- AAR shipper forum in St Louis on September 21 to summarize fall service plans.