



**CANADIAN
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Mr. Francis P. Mulvey
Acting Chairman
Surface Transportation Board
810, 1925 K Street N.W.
Washington, DC 20423 - 0001

Dear Mr. Mulvey:

Thank you for your letter of July 6th, 2009, regarding Canadian Pacific's (CP) preparedness for the "fall peak" shipping season.

We value our customers' business. Our primary interest is in their growth and ensuring that rail is an integral partner in their business. CP works closely and diligently with our customers to understand their service requirements. This customer interaction is the foundation upon which our Integrated Operating Plan (IOP) is built.

We are refining communication and coordination with customers for better forecasting and corridor slot planning to allow for more responsive adjustments to our IOP. Where possible, we encourage and facilitate demand leveling which improves balance in daily workloads through the supply chain and reduces congestion at ports and terminals as well as on the railroad.

Our responses to your questions and insight to our planning process follows:

1. "To the extent your railroad has been affected by extreme weather conditions, the effort your railroad has undertaken to restore damaged infrastructure and restore service."

CP experienced two significant flooding events in the spring of 2009. The first in Northern Minnesota closing our Emerson/Noyes gateway between April 4 and April 28, 2009. The second in Midwestern North Dakota limiting operations on our Carrington Subdivision between April 23 and May 1, 2009. To maintain fluidity for our customers during the flooding, we re-routed and detoured a significant amount of traffic. When the waters finally receded in Northern Minnesota, we were able to quickly restore operations. Active work by Engineering staff in North Dakota enabled traffic to continue to run during the flooding period. The flooding in both areas exceeded recent flood records but fortunately there was minimal significant damage to our infrastructure.



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2. “The steps your railroad is taking to ascertain demand for and prepare for this year’s peak shipping season, with emphasis on the commodity areas...”

CP works diligently on an ongoing basis, to deliver consistent and efficient products to the market place. Demand planning, a core business process at CP, has played a major role in our success in this area and is the foundation for effective “peak planning”.

The key components of CP’s demand planning process include:

- 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 including cars, locomotives, crews, interline connections, terminals, and yards.
- Annual demand outlooks designed to initiate base service plans and resource requirements for the upcoming calendar year.
- Monthly updates by specific commodity and business sectors which allows for proactive adjustments to the base plan.

A critical aspect of CP’s demand planning is direct customer input. Dialogue around forecasts remains an extremely high priority:

- CP meets regularly with all key customers to ascertain their views on demand, volume flows, and market risks.
- CP has undertaken independent and internal reviews to better understand key demand drivers and validate demand (both short and long term).
- Regular review meetings are held between Marketing and Operations to understand short term changes in demand and quickly react to those changes.

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 the following is a snapshot of our approach in this area:

- Extensively analyze industry data to develop grain shipment demand forecasts (USDA Sods).
- Consult with CP’s Shipper Advisory Boards (approximately 10 elevator managers from the west and east territories of CP’s Northern Plains network) in the Spring to review crop assumptions and forecasts, seeding intentions, market developments, and weather-related issues.
- Performed extensive interviews with elevator managers in our territory to understand their 09/10 shipping intentions.
- Validate outlooks with the merchandising side of the grain companies to ensure country demand aligns with expected market sales.
- Calibrate shipping intentions with CP’s capacity by region to: a) Effectively manage demand, b) Align customer expectations. c) Appropriately adjust our resource base.
- Meet with key PNW receivers and our interline partners to review shipping intentions and service needs

- Continuously monitor market, production and weather impacts from USDA ND, MN & Iowa Ag Stats along with consultations with exporters, commercial grain companies, and elevator managers.
- Hold weekly pipeline planning sessions to set priorities and manage expectations.
- Solicit shipper feedback on the suitability of our product offerings in relation to market developments.

We plan to proceed per our normal and continuous business process:

- Match current demand outlook to resources.
- Develop a deliverable service plan reflecting available resources and realistic performance targets.
- Utilize our IOP to most effectively serve the known demand. The IOP defines specific operational responsibilities and establishes common goals for delivering consistent and reliable train service. It balances train flows across specific corridors optimizing crew, locomotive and yard capacity.
- 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:

- Growth of our "Dedicated Power" Product .
- A Grain Production Management Team to proactively manage the grain rail supply chain using Lean Management principles.
- Progression of our homogeneous hopper fleet initiative (US and Canada) to promote efficiency and improve order fulfillment.
- Regularly scheduled pipeline planning meetings with supply chain partners to coordinate logistics.
- Coordinated approach to fleet management with the DM&E will bring improvements in efficiency and effectiveness of our expanded grain franchise in the U.S.
- Direct access to the Kansas City gateway to enhance fluid movement of grain shipments to key southwest and Mexican destination markets.
- Meetings with major interline partners to institute operating plans to maximize interchange fluidity and over-the-road performance for joint-line traffic.

Although intermodal has a somewhat smaller presence in our U.S. operations, this segment typically does exhibit significant seasonal variances with peaks ranging 10% to 20% higher than non-peak months. In 2009 we expect to be at the lower end of this range. To enhance network fluidity, CP will:

- Use an import allocation system at the Port of Vancouver for all intermodal, including international traffic to Chicago and the U.S. Midwest. This system also provides shippers with clarity on supply.
- Use a process to minimize the extent to which rail capacity is consumed by the repositioning of empty containers.

- Collaborative effort with Shipping companies and terminals to apply Lean Management principles to key intermodal lanes.

3. "A projection by month of your railroad's overall performance goals in the areas of cars-on-line, terminal dwell, train speed, and the expected trainmen and engineer employment levels from September through December of this year."

4. "The number of freight cars currently in storage (all types), and plans to restore cars to service, should demand exceed expectations."

5. "Number of furloughs or other force reductions in the operating crafts."

6. "A description of plans to rehire, or restore operating employees to full service to meet any projected increases in demand due to fall peak."

7. "Your railroad's plans for achieving those goals; and"

CP has a variety of performance goals designed to improve system fluidity and hence peak throughput capabilities. CP's Integrated Operating Plan (IOP) is built on the core design principles of velocity, balance and network. We believe that by staying true to these principles, CP will continue to evolve a more consistent service from plan through to execution. Our progress on key performance criteria is as follows:

- Train speed has improved by 19 % since 2005.
- Terminal dwell has improved by 31% since 2005.
- Car miles per day has improved by 39% since 2005.

Cars on line will be a function of demand and uncontrollable events on the network (such as the recent flooding in the US Midwest). Our focus with respect to car fleet will be to ensure we can meet our customers' demand and drive up car velocity.

For the remainder of 2009, we expect train speed to be in the 24-26 MPH range; terminal dwell to be in the 21-22 hour range; and car velocity to be in the 140-150 miles/day range.

Building upon this solid foundation of IOP and capital investment, we also have a number of improvement initiatives. We continue to apply "Lean Management" techniques in our yard operations to identify, eliminate or minimize dwell and rework thereby enhancing fluidity in the yards. Early in 2008, we also reviewed our grain products and services. As a result of the review, we increased management resources and prioritized a project focused on improving efficiency, velocity and, therefore, capacity of our grain franchise. This work will continue in 2009.

CP's PLANS FOR ACHIEVING PERFORMANCE GOALS

To support fall performance goals and expected growth, CP has taken several actions over the last 2 years. These include:

Cars

- Higher usage of 100T equipment in Boxcars through retirement of 70T cars and alternate usage of surplus high-capacity cars.
- Increased the 89' Flatcar fleet. This is to match a heavy demand for transmission pipe in North America as well as anticipated volume increases in dimensional traffic.
- Multi-level rebuild program on 200 cars in 2008 as a part of a multi-year program to improve the quality of our Automotive fleet.
- Acquired 250 new tri-levels.
- Our letter dated August 6, 2008 to you outlining actions to improve quality of our covered hopper fleet.

As of July, 2009 we have approximately 16,000 cars in storage. Our storage process is designed to facilitate a quick return to service, by having cars stored in locations across the network near major demand points. In general, stored cars can be accessed within 7-14 days should demand warrant.

Locomotives

- Continuous review of our locomotive fleet requirements including CDN \$195 Million in 2009 for locomotive maintenance and overhaul to ensure we have appropriate hauling capacity.
- 90 leased locomotives currently stored on CP and available for peak season demand should volumes warrant.
- 400 owned road and yard locomotives are in a combination of long and short storage and available for activation should volumes warrant.

Crews & Other Support Employees

With respect to hiring of train crew employees:

- With the significant downsizing due to the downturn in the economy, hiring of new train crew personnel has been very limited.
 - Canada – 5 new hire train crew personnel
 - US – 35 new hire train crew personnel
- We have continued to train Locomotive Engineers to ensure a consistent base to keep pace with our natural attrition rates.
 - Canada – 105 Locomotive Engineer trainees
 - US – 24 Locomotive Engineer trainees

Due to the economy, as of July 2009, the following furloughs/lay offs are currently in effect:

- Train Crew Employees:
 - Canada – 1256
 - US – 270
 -
- Locomotive and Car Repair Employees:
 - Canada – 347
 - US – 47
- Track Maintenance Employees:
 - Canada – 63
 - US – 7
- Transportation Employees:
 - Canada – 28
 - US – 4

Should volumes warrant it these employees can generally be recalled within 7-15 days.

Yards & Terminals

Focus on fluidity through inventory management, processing and dwell reduction:

- **Inventory:** A Build Quality Reader (BQR) install in Milwaukee yard was completed in Q2 2009 and will be fully operational before the end of August. This is in addition to the readers installed at both St Paul and Bensenville yards last year. The BQRs enable yard staff to validate the accuracy of the inventory on departing trains and ensuring trains depart with an accurate consist/wheel report.
- **Yard Processing:** A new yard planning system was fully implemented in St Paul yard in early 2009, with further installations completed in Chicago and Milwaukee by June and Canada fully implemented by the end of July 2009. This will provide the front line employee with improved train design information, better yard processing decision tools and metrics dashboards that gauge the effectiveness of the current "plan". This will create time for the front line employees to directly supervise crews and increase productivity, as well as focus on dwell reduction and increase train size.
- **Dwell Reduction:** Our Yard Operations Performance (YOP) team continues to use Lean Management techniques to support continuous improvement in the yards and is focusing on decreasing shipment dwell time and locomotive cycle times, as well as an overall reduction of inventory. The YOP team is working with senior management and all departments to establish process controls for the active management of all assets mentioned.

Road Process

We continue to progress the implementation of our Management Operating System (MOS) across all of transportation. The MOS effort primarily identifies and provides standard work for front line managers; standard work relating to the active supervision, and active planning required to improve execution excellence. The MOS platform provides support tools and a continuous improvement process which will allow us to continue to grow our lean management techniques across network operations.

Interline Processes

- Continue working with partners on interline service agreements designed to maximize capacity over gateways and at terminals; improve loaded and empty shipment velocity.

Contingency Planning

CP's winter planning program for 2009/2010 is complete; this will permit CP to operate effectively through normal winter conditions and it renders CP well prepared should winter arrive early.

- Each year we debrief on learning from the previous winter and we are now pursuing improvement opportunities in the areas of:
 - a. Improved pipeline management with Automotive customers to smooth flow.
 - b. Slope stabilization in avalanche prone areas.
 - c. Improved locomotive reliability initiatives.
 - d. Powering of solid trains to improve velocity and consistency in key corridors.
- CP's spring plan assesses the risk to operations from landslides, washouts and flooding and how we will respond if this should occur. Some examples of the approach we take are as follows:
 - Snow pack and weather assessments to forecast expected impacts.
 - Identify high risk areas for each mile of our track: Evaluation includes but is not limited to the risk of flooding; log jams; sub grade softening, or bank erosion.
 - Proactively preposition material and equipment – culverts, riprap, and ballast.
 - CP track and asset elevation data are matched with river flood levels and where practicable we raise the elevation of track and trackside equipment.
 - Establish emergency contractors for contingency including: Helicopters for ongoing monitoring and quick assessment of damage; blasting and rock stabilization; rail, bridge and culvert work.
 - Monitor 7X24 and trigger action plans to minimize impacts and recover quickly.

8. “Your railroad’s plans for communicating the above information to the customers, beyond standard commercial relations.”

CP engages in communication with customers at many levels. Some examples of this ongoing process include:

- Regular meetings with key customers to review anticipated fluctuations in long term demand.
- Daily calls with key customers and port facilities to understand unforeseen demand changes that may require an adjustment of resources.
- Ongoing discussions with grain customers to review new products and services and to validate supply and demand assumptions.
- Participation in numerous customer and shipper/commodity conferences to review and validate demand.

9. “Your railroad’s capital plans for remainder of 2009, versus initial projections for 2009.”

10. “Your railroad’s critical capacity-related infrastructure needs; and

11. “Your railroad’s plans for addressing those critical capacity – enhancing infrastructure needs and your expectation for timely completion of those improvements.”

CP utilizes sophisticated modeling tools, cross-functional processes, and contingency planning and forecasting with customers to meet the demands of operating a rail network in a difficult geography. These processes are an integral part of CP’s year round planning and operations.

Through our IOP, we are able to calculate the mobile resources (locomotives, railcars and crews) required to consistently execute that plan. We are presently reviewing the capital required in 2010 to maintain and enhance our service capabilities and improve safety.

Our annual capital program typically includes investments in track and facilities (including rail yards and intermodal terminals); locomotives; information technology; and freight cars and other equipment. On an accrual basis, we invested approximately \$2.7 billion in our core assets from 2006 to 2008, with annual capital spending over this period averaging approximately 19% of revenues. This included approximately \$1.8 billion invested in track and facilities - of which \$0.2 billion was spent on capacity projects in various sections of CP’s Core Network, \$0.4 billion in locomotives, \$0.2 billion in information technology and \$0.4 billion in freight cars and other equipment.

Capital investments in 2009 are expected to be in the range of \$800 million to \$820 million CDN which is a reduction of approximately \$180 million CDN when compared with the combined CP and DM&E cash capital investment for the full year in 2008. CP revised its 2009 Capital spending plans during the 1st fiscal Quarter to keep pace with the ongoing economic challenges and commensurate year-over-year volume downturn. Compared to the previous year, CP has reduced other Capital spending in discretionary information technology investments, postponed planned increases of capacity through upgraded track and signaling systems, reduced planned spending in both locomotive overhauls and freight car fleet modifications and capacity upgrades of its commercial facilities.

CP assumed control of the DM&E on October 30, 2008 following STB approval of its acquisition. The addition of DM&E extended CP's reach and increased its rail network, added new customers and expanded the service available to customers of both DM&E and CP. Over the next 3 years, CP plans to make infrastructure investments into the DM&E and IC&E networks to improve safety and fluidity.

CP continues to employ "rifle shot" tactics to improve throughput and fluidity on several route segments which support US grain exports and cross-border trade routes. Capacity is also a function of accurate shipper forecasting, coordination, demand management and leveraging 24/7 round-the-clock operations. CP will continue to aggressively pursue these opportunities as we work with our customers in planning for the fall peak.

2010 capital programs are currently being reviewed against demand and cash flow forecasts. Corporate Governance requires approval by the Board of Directors of our Capital Budgets. Approvals and public announcement of our Capital Budgets are not released until later in the fourth quarter.

We are committed to making infrastructure investments where economically justified. However, we must also relentlessly pursue other non-infrastructure means to fully utilize existing capacity. We cannot do it alone. For example, the continent's railroads operate every hour of every day of the year. A substantial number of our partners and customers do not. As participants in an integrated supply chain, all players must respect the necessity of dealing with time, distance traveled and delivery expectations. The most efficient transportation network is one that operates on a 24/7 basis. This minimizes the amount of resources and infrastructure necessary to support the transportation portion of the supply chain. The capacity issues associated with volume crests are significant and a coordinated strategy to utilize existing infrastructure can defer billions of capital dollars required for our highways, ports and railways. A collaborative effort is required between railroads, shippers, receivers, ports and governments to ensure our collective success.

Legislative and regulatory certainty is critical regarding significant investment in fixed assets. Any suggestion of a return to regulation of railroads' commercial business would cause immense harm by restricting CP's ability to secure reasonably priced financing and attract and retain equity investors. Such regulation would discourage investment in expansion projects, in new technologies and normalized maintenance needed to enhance and improve the safety and reliability of the existing infrastructure. A strong and vibrant economy requires an extensive and safe rail transportation infrastructure. Improvements in safety, efficiency and service reliability that have benefited rail customers, employees and the communities have improved through deregulation.

In addition, the plans outlined in this letter do not factor in impacts on our network that could occur under the PHMSA Annual Route Assessment requirements if FRA mandates any significant changes to our current routing of specified hazardous materials, such as PIH tanks cars (loads and residues). The impacts of these changes could be felt not only by shippers and receivers of specified hazardous materials but by all users of rail service.

Reasonable regulation and positive political support of the rail industry will greatly improve the ability of the industry to grow and meet the capacity expansion required to support North America's growth. I would urge you and members of the Board to maintain a supportive regulatory environment.

Living our core values and focusing on operational excellence has delivered significant improvements in our safety and operating metrics and we are confident that maintaining that ethos will ensure that we can continue to serve our customer's needs.

Sincerely,



F. J. Green
President and Chief Executive Officer

cc: Mr. Edward R. Hamberger, AAR