



**CANADIAN  
PACIFIC**

F J (Fred) Green  
President and  
Chief Executive Officer

Suite 500  
Gulf Canada Square  
401 - 9th Avenue SW  
Calgary AB  
T2P 4Z4

Tel (403) 319-7555  
Fax (403) 205-9000

fred\_green@cpr.ca

September 14, 2007

Mr. Charles D. Nottingham  
Chairman  
Surface Transportation Board  
810, 1925 K Street N.W.  
Washington, DC 20423 - 0001

Dear Mr. Nottingham:

Thank you for your letter of August 15, 2007, regarding Canadian Pacific's (CP) preparedness for the "fall peak" shipping season.

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. CP works closely and diligently with our customers to understand the volumes and service requirements that we are required to meet for them to be successful. This intimate understanding of our customers' needs is the foundation upon which our Integrated Operating Plan (IOP) is built.

Having defined our operating plan, we are able to precisely calculate the mobile resources required to consistently execute that plan in terms of crews, railcars and locomotives. Since 2005, we have added 783 new train crew employees. In 2007, we have acquired and/or upgraded over 1,400 railcars and we have also acquired 90 new AC locomotives.

While IOP enhances our tactical planning of the mobile assets required to meet customer needs during critical periods such as "peak season" the processes in place also provide the foundation and support for the critical and necessary infrastructure additions required to effectively run our operations. Our commitment to effectively service our customer's is demonstrated by the fact that between 2005 to 2007, we have spent CDN \$ 250 M on network capacity expansion. In 2007, we will again spend in excess of CDN \$ 885 million to maintain and enhance our service capabilities as well as for improved safety. This includes projects to increase capacity and improve the transportation fluidity to the Pacific Northwest ports and for US Northeast ports.

Building upon this solid foundation of IOP we also have a number of other continuous improvement initiatives. We are applying "Lean Management" techniques in our yard operations to identify, eliminate or minimize dwell and rework thereby enhancing fluidity in the yards. In addition, we continue to refine communication and coordination with customers for better forecasting and corridor slot planning to allow more responsive adjustment to our IOP. Where possible, we encourage and facilitate demand leveling which improves balance in daily workloads right through the supply chain and prevents congestion at ports and terminals as well as on the railroad.



**CANADIAN  
PACIFIC**  
OFFICIAL SUPPORTER

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 and we can not do it alone. For example, the continent's railroads operate every hour of everyday 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 expansion 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.

As the Board is well aware, where expansion is the best answer, CP has targeted significant amounts of capital towards improvements to our physical plant, and we continue to invest to improve the capacity and fluidity of our system. We have invested over \$ 2 Billion over the last 5 years. We are gratified that to date we have been able to attract the capital necessary to make such improvements and to invest in the expansion of our United States lines and facilities through the planned acquisition of the DM&E. We are confident that our efforts, as detailed in the attached appendix, will permit us to handle the peak grain harvest and seasonal intermodal traffic influx that we project for this year. However, for long term solutions to capacity needs, the rail industry must continue attracting investors from a highly competitive capital market. Rail is viewed, and in fact is, more capital intensive when compared with other sectors. For this reason, we believe that it is essential that the Board employ a methodology for calculating the rail industry's cost of capital that is both accurate and consistent, with what the real world markets in which we operate demand. Investments in rail infrastructure and returns to investors must consider the high cost, long term, immobile nature of the asset and properly reflect the related risks associated with potential stranded or obsolete assets.

Legislative and regulatory certainty is critical in terms of decisions regarding significant investment in fixed assets. Any suggestion of re-regulation or return to governmental regulation of railroads would cause immense harm by restricting CP's ability to attract and retain capital investors. We believe that re-regulation would not only discourage investment in expansion projects but also investment in new technologies and normalized maintenance needed to enhance and improve the safety and reliability of the existing infrastructure. North America has a strong and vibrant economy and much of that success is directly attributable to the extensive and safe transportation infrastructure that is in place. Improvements in safety, efficiency and service reliability that have benefited rail customers, employees and the communities came only after the rail industry was deregulation. I would encourage you and members of the Board not to initiate anything that would detract from the impressive efficiency and service gains our industry has made, and will continues to make under a supportive regulatory environment

In closing, 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 operations and planning year round and not just deployed for peak season. Living our core values and focusing on operational excellence has delivered significant improvements in our safety and operating metrics. These same basics will be applied to our planning and integration plans for the DM&E. We look forward to sharing these plans with you in our STB submission.

Sincerely,



F.J. Green  
President & Chief Executive Officer  
Enclosures

cc: The Honourable W. Douglas Buttrey  
The Honourable Francis Mulvey  
Edward R. Hamberger, AAR

## Appendix

### 2007 FALL PEAK

#### 1. DEMAND PLANNING

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 as required.

A critical aspect of CP'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,

- 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.
- Weekly 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 following is a snapshot of our approach in this area and is how we do business all the time:

- 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) to review crop assumptions and forecasts, seeding intentions, market developments and weather related issues.
- validate outlooks with the merchandising side of the grain companies.
- continuously monitor market, production and weather impacts from USSDA ND & MN Ag Stats along with consultations with exporters, commercial grain companies, and elevator managers.
- 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 as per our normal and continuous business process:

- match current demand outlooks against available resources.
- develop a deliverable service plan or offering reflecting available resources and realistic performance targets.
- utilize our IOP to most effectively serve 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. CP is able to keep traffic patterns fluid and maximize the operating capacity of our system.
- 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:

- an updated suite of products and services that match CP resources to market demand.
- joint service plans with lease line partners to ensure smooth operational interfaces at the movement origination.
- implementation of specific trainload services to maximize PNW export grain capabilities.
- meetings with major interline partners to institute operating plans to maximize interchange fluidity and over-the-road performance for joint-line traffic.
- proactively manage our grain supply chain through our Grain Shipment Management Team.
- additionally, we are growing our "dedicated power shuttle" product based on the past success of this program. Our customers have indicated their support for this initiative.

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 CP:

- continues to 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.
- continues to use a process to minimize the extent to which rail capacity is consumed by the repositioning of empty containers.

### **3. PERFORMANCE GOALS**

CP has a variety of performance goals designed to improve system fluidity and hence peak through put capabilities. Our integrated operating plan is built on the core design principles of velocity, balance and network. We believe that this allows us to continuously improve the consistency and velocity of our products. Key goals impacting system fluidity and our progress on improvement is as follows:

- train speed has improved by 8 % since 2005
- terminal dwell had improved by 29% 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 recent severe flooding in the US Mid west. Our primary focus will be to ensure we are always meeting our customers' demand and driving up car velocity. For the remainder of 2007, we expect train speed to be in the 23-25 MPH range; terminal dwell to be in the 20-22 hour range and car velocity to be in the 145-150 miles/day range.

### **4. CP'S PLANS FOR ACHIEVING PERFORMANCE GOALS**

To support our fall performance goals and expected growth, CP has taken several actions. These include the following:

#### **Cars**

- Acquired 250 new coal cars, and upgraded another 500 to 268 loading for capacity enhancement.
- Acquired 200 new flat cars for pipe and dimensional load movements.
- Upgraded 250 pulp boxcars to 268 loading for capacity enhancement.
- Acquired 300 new covered hoppers and life extension on another 206 cars to reduce the incidence of bad order equipment
- Acquired 165 more double stack equipment in our Intermodal fleet.

#### **Locomotives**

- Continuous review of our locomotive fleet requirements including CDN \$ 160 Million in 2007 for locomotive maintenance, overhaul and acquisitions to ensure we have appropriate hauling capacity.
- Leasing of 70 locomotives for winter and peak season operations. This includes the powering up of coal trains to increase capacity and fluidity.

### Crews

- Since 2005, we have added 783 new train crew employees (510 in Canada and 273 in US) on our network including. Based on the demand known to us, we expect to have the following trainmen/engineer employment levels in the US:

September - 1238

October - 1232

November - 1233

December - 1229

### Yards & Terminals

- completed field implementation in 2005 of our yard management system (TYES) to facilitate processing improvements and enable greater yard fluidity. We are now able to leverage the functionality that TYES provides.
- our Yard Operations Performance (YOP) team continues to develop and support improved yard operations performance with a focus on decreased shipment dwell time in yards and faster shipment transit time using Lean Management techniques. The YOP team has worked with local operations management to establish processes controls and has contributed to the reduction in terminal dwell across the system.

### Interline Processes

- continue working with partners to maximize capacity over gateways and interchanges, particularly with UP at Eastport/Kingsgate where the infrastructure in our Pacific Canam corridor is now capable of handling up to 60 trains per week. Our co-production initiative with Norfolk Southern between Chicago and Detroit is providing more reliable, faster service in this corridor.

### Contingency Planning

- CP's winter planning program for 2007-2008 is complete; this will permit CP to provide the best service possible should winter arrive early. Each year we debrief on learning from the previous winter and are now pursuing improvement opportunities in the areas of:
  - a. improved pipeline management with Automotive customers to smooth flow and work 24/7.
  - 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:
  - a. we assess Snow pack and Weather Forecasts to come up with expected impacts.
  - b. we identify the high risk areas for each mile of our track – whether that is flooding; log jams; sub grade softening, or bank erosion.
  - c. we proactively preposition material and equipment – culverts, riprap, and ballast.

- d. accurate CP track and asset elevation data are matched with river flood levels, and where practicable we raise track elevation and trackside equipment.
- e. we establish emergency contractors for very contingency – helicopters for ongoing monitoring and quick assessment of damage, blasting and rock stabilization; rail, bridge and culvert contractors.
- f. we monitor 7X24 and trigger action plans to minimize impacts and recover quickly.

## **5. CAPACITY**

- CP has completed our major capacity expansion on our Western corridor involving 25 sub projects, with a total 2005 cost of \$160 Million. It has improved capacity by 12% and will enhance our route structure from Canada's Pacific coast to the United States.
- in addition to this major initiative, CP has employed "rifle shot" tactics to improve throughput and fluidity on several route segments which support US grain exports and cross-border trade routes including three sidings between Dunmore, Alberta and Crowsnest, British Columbia increasing capacity by 20%. 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.
- our 2008 specific capital programs are currently being reviewed against demand and are still subject to final Board of Director's approval. We expect that we will be able to release specific details later in Q4 2007 and we'll continue to provide appropriate capacity to critical export corridors.

## **6. COMMUNICATIONS WITH CUSTOMERS**

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

- key customer meetings and participation in numerous customer and shipper/commodity conferences to review and validate demand.
- on-going discussions with grain customers to review new products and services and to validate supply and demand assumptions.
- CEO and CMO participation in the North American Rail Shippers forum in May 2007 to discuss ability to handle demand.
- daily calls with key customers and port facilities to review demand and where required adjustment of resources to deal with changes in demand.