CANADIAN PACIFIC RAILWAY

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August 28th, 2008

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 July 25th, 2008, 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 the recent floods in the Midwest, efforts your railroad has undertaken to restore damaged infrastructure and restore service."

CP experienced a significant line outage in the Reeseville Marsh, Wisconsin area which challenged our operation. To maintain fluidity for our customers during the flooding, we re-routed and detoured a significant amount of traffic; when the waters finally receded we were able to quickly restore operations. The magnitude of the flooding far exceeded all historical records but fortunately there was minimal damage to our infrastructure. Preliminary engineering and design work is underway to support regulatory permit applications which will allow for the raising of the track embankment through the area.

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 08/09 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 USSDA ND & MN 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:

- A 10% increase in our base freight program for 2008/2009 which will promote supply consistency and demand smoothing.
- Growth of our "Dedicated Power" Product (more dedicated power train-loadings this Fall vs. 2007/08).
- A Grain Shipment Management Team with increased resources to proactively manage the grain rail supply chain.
- 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.
- 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 does exhibit significant seasonal variances with peaks ranging 10% to 20% higher than non-peak months. 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.

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. "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 10 % since 2005.
- Terminal dwell has improved by 28% since 2005.
- Car miles per day has improved by 40% since 2005.

Cars on line will be a function of demand and uncontrollable events on the network (such as the recent severe 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 2008, we expect train speed to be in the 23-25 MPH range; terminal dwell to be in the 21-22 hour range; and car velocity to be in the 145-155 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. These include:

Cars

- Acquired an additional 4 sets of High Capacity 286K Aluminum Coal Cars, of which 2 sets are ECP equipped.
- 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.

Locomotives

- Continuous review of our locomotive fleet requirements including CDN $270 Million in 2008 for locomotive maintenance, overhaul and receipt of 40 new GE AC traction Evolution series locomotives in Q1 - to ensure we have appropriate hauling capacity.
- Leasing of 110 locomotives for winter and peak season operations including 90 locomotives leased through to Dec. 31st, 2009. This will support the powering up of coal and potash trains to increase capacity and fluidity on one of our busiest corridors.

- We have met with GE to improve fleet reliability in the winter months with specific on improving locomotive reliability. GE manages 4 facilities for the CP. Actions include:
  1. replacing problematic radiators and axles;
  2. early completion of the "winterization program";
  3. additional technical ad help desk support;
  4. enhanced parts supply.

Crews

- In 2008, to address both anticipated retirement attrition and growth, hired a total of 782 train crew personnel . Including:
  - 620 planned new hires in Canada
  - 162 planned new hires in the US

This plan builds in a contingency factor in select corridors to enable quicker recovery from unplanned outages.

Yards & Terminals

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

- Inventory: Build Quality Readers (BQRs) were installed at both St Paul and Bensenville yards, enabling yard staff to validate the accuracy of the inventory on departing trains and ensuring trains depart with an accurate consist/wheel report. Milwaukee yard will also be equipped with a BQR in Q4 of 2008. To further support inventory management, CP is also reviewing the use of a camera system in yard operations and intends to have clarified strategy and associated cost for deployment - by late 2008.

- Yard Processing: A new yard planning system will be implemented in St Paul yard in late 2008, with further installations in the US and Canada in early 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.

- 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

- A full year 2008 objective is in progress to implement a 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. This MOS work is also progressing in Engineering Maintenance and will continue through 2009.

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 2008/2009 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.

5. "Your railroad's plans for communicating the above to the customers."

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.

6. "Your railroad's capital plans for increasing capacity in 2009."

7. "Your railroad's critical capacity-related infrastructure needs; and

8. "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. By year's end we will have spent CDN $ 112 M on network capacity expansion. We are presently reviewing the capital required in 2009 to maintain and enhance our service capabilities and improve safety.

CP has targeted significant amounts of capital toward improvements to our physical plant. We have invested over $2Billion in the last five years and we will continue to invest to improve the capacity and fluidity of our system. 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. In the event that the STB approves our acquisition we are ready, willing and able to operate and maintain that railroad to CP standards to improve safety and increase customer satisfaction.

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.

2009 capital programs are currently being reviewed against demand and cash flow forecasts. Corporate Governance requires approval by the Bard 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.

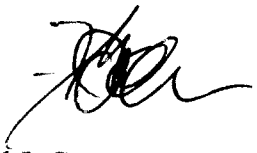
Legislative and regulatory certainty is critical regarding significant investment in fixed assets. Any suggestion of a return to governmental regulation of railroads would cause immense harm by restricting CP's ability to secure reasonably priced financing and attract and retain equity investors. Re-regulation 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 the impacts on our network that will occur if the FRA mandates speed restrictions for trains handling PIH tank cars (loads and residue) that do not meet the recently promulgated enhanced tank car standards. We support enhanced safety of hazardous commodities through stronger tank car design, and realize that an enhanced tank car is a longer term solution. In the interim period before the enhanced tank car can be put into operation the proposed speed restrictions for both loads and empties are unnecessary and will decrease rail capacity, increase transit times, require additional resources across the entire network and increase costs. This burden would be felt not only by shippers and receivers of PIH commodities, but by all users of rail service. The limited data underlying FRA's analysis does not support the conclusion that a speed limit of 30 mph is necessary to significantly reduce risk in the event of a derailment on non-signaled track and the analysis significantly underestimates the impact of a 30 mph speed restriction on the rail network. Secondly, the data indicates that empty cars pose little, if any, risk.. There is an alternative way to eliminate even the minimal probability of release from a residue car, by adopting a residue removal requirement before the car is returned to transportation service. Unlike the proposed speed restrictions which impact all rail shippers, the cost of emptying the tank car would be borne by the parties whose shipments create the risk.

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,



Fred J. Green
President and Chief Executive Officer

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