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The Honorable Daniel R. Elliott III
Chairman
Surface Transportation Board
395 E Street, SW
Washington, DC 20423

Re: End of Year 2010 Railroad Service Outlook

Dear Chairman Elliott:

Thank you for your letter of August 9, 2010, regarding Canadian Pacific's ("CP's") plans for responding to the demand for U.S. rail service during the balance of 2010.

As your letter recognizes, the past 18 months have been challenging for CP and our customers. While traffic has rebounded somewhat from 2009 levels, we continue to experience both uncertainty in the economic climate and volatility in volumes tendered for movement. However, with the initiatives, investments and ongoing business processes described below, CP is well-positioned to handle increased traffic volumes safely and efficiently as the economic recovery progresses.

CP values its customers' business, and we strive to be an effective partner in their efforts to grow. We work closely with our customers on a daily basis to understand their requirements, adjust our services to meet those requirements, and to develop accurate traffic forecasts. We encourage and facilitate demand leveling in order to balance daily workloads throughout the supply chain and reduce the potential for congestion not only on our railroad, but at ports and terminals as well. Continuous customer communication is the foundation upon which CP's Integrated Operating Plan ("IOP") is built.

CP responds as follows to the specific questions set forth in your August 9 letter:

1. The overall actions your railroad will take to prepare for the end-of-year shipping season, with specific references to critical commodity areas such as: agriculture (e.g., grain, grain products, and ethanol), coal, chemicals and intermodal.



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CP works diligently on an ongoing basis to deliver efficient and reliable service to our customers. Demand planning is a core business process at CP, and plays an important role in our success in responding to seasonal fluctuations in traffic. Overall responsibility for demand planning is exercised by a cross-functional team that integrates current and forecast demand information with our service planning in order to ensure that all elements of the capacity equation – including cars, locomotives, crews, interline connections, terminals and yards – are properly aligned.

CP develops an annual demand outlook, by commodity and business sector, to provide a foundation for the base service plan and estimated resource requirements for the following calendar year. Those annual forecasts are updated monthly during the year, allowing us to make proactive adjustments to our service plan as necessary.

Direct customer input is a critical component of CP's demand planning process. CP meets regularly with key customers to ascertain their views regarding demand, volume flows and market risks. When unforeseen changes in demand occur, we convene daily calls with key customers and port facilities to discuss those events and to determine whether adjustments may be required to maintain efficient and fluid operations. CP participates regularly in customer and commodity group conferences to review and validate demand projections.

CP also conducts independent internal analyses to enhance our understanding of key demand drivers and to validate short and long term forecasts. To support those efforts, we have implemented a new forecasting system that takes into account macro-economic factors by industry segment. Our Marketing and Operations teams meet regularly to review changes in demand and develop an appropriate response to such changes.

As an example, grain represents a substantial portion of CP's U.S. traffic base. We have implemented a variety of initiatives to support that important business sector. A dedicated Grain Production Management Team proactively manages the grain rail supply chain. CP participates on a regular basis in planning meetings with our supply chain partners to discuss ways to optimize the grain logistics pipeline. A coordinated approach to fleet management with DM&E has produced significant improvements in the efficiency of our expanded U.S. grain operations. CP's ongoing "homogeneous hopper fleet" initiative, involving both U.S. and Canadian cars, will promote better equipment utilization and improve our ability to fulfill customer car orders. Expansion of our "Dedicated Power" product is likewise enhancing service for high-volume grain shippers. CP meets with our major interline partners to develop operating plans that maximize interchange fluidity and over-the-road performance for interline grain traffic.

As the 2010 end-of-year period progresses, we will utilize these ongoing business processes to match demand with appropriate resources; develop a deliverable service plan that reflects both available resources and realistic performance targets; and adjust our IOP to serve our customers safely and efficiently

2. 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.

During 2010, CP has experienced several severe weather events affecting its U.S. Midwest operations. Greater than average snow accumulation in northern Minnesota and North Dakota threatened to generate dangerous spring run off in the Mississippi River Basin. Based upon official projections of 100 + year flooding levels along the upper Mississippi River, CP took action to protect its facilities at St. Paul Yard and in the Quad Cities area of Iowa. Work normally performed at St. Paul Yard was redirected to other facilities in anticipation of significant flooding at that location. Fortunately, favorable weather conditions reduced the actual level of flooding in the vicinity of St. Paul, sparing our yard considerable damage that might have otherwise occurred. Nevertheless, the suspension of operations at St. Paul Yard as part of CP's flood contingency planning adversely impacted our operations in the area.

CP's operations were further impacted by severe weather during the late spring and summer of 2010. Weather events that occurred between mid-June and mid-August resulted in 58 service disruptions on CP's U.S. network. Most notably, heavy rain in Iowa and Illinois caused considerable track damage and multi-day service outages at several locations. CP's Kansas City Subdivision was closed between May 13th and May 16th as a result of the Grand River rising above its banks. Substantial engineering work was required to repair scouring damage and to clear flood debris. Between July 23rd and July 28th, CP's Savanna Yard (on the Chicago Subdivision) and several locations along CP's Marquette Subdivision experienced service disruption caused by heavy rain and flooding along the Mississippi River. In response to these events, CP incurred substantial expense to repair damaged levees, track and embankment and to remove flood debris.

3. The progress your company is making integrating the DM&E service areas into CP's U.S. operations.

Pursuant to the Board's decision authorizing CP's acquisition of DM&E, CP assumed control of DM&E on October 30, 2008. The acquisition of DM&E extended the reach of CP's U.S. rail network, provided access to new sources of traffic (including ethanol), and expanded the single-system rail services available to customers of both DM&E and CP. As indicated in the DM&E control proceeding, CP is making substantial investments in DM&E's infrastructure in order to enhance the safety and fluidity of DM&E's rail operations. In 2010 CP will spend approximately \$72 million dollars on its DM&E property.

The DM&E and CP train operating plans were integrated promptly upon consummation of the control transaction in 2008, and continue to be adjusted as necessary to meet customers' requirements.

During 2009, CP developed a more comprehensive plan to integrate DM&E into the CP system. Implementation of the integration plan commenced on January 1, 2010 and is ongoing. As of the date of this letter, the DM&E Finance, Human Resources, Government Affairs, Engineering, Operations, Transportation and Mechanical Departments have been integrated with, and report to, the corresponding functional areas on CP.

DM&E's Transportation Department continues to operate at Sioux Falls, SD and reports to CP's Minneapolis Operations Center. We currently plan to relocate the Sioux Falls Operations Center to Minneapolis by the end of Q1 2011. DM&E's marketing activities are now headquartered in Minneapolis, with some marketing staff remaining at Sioux Falls. Car Management for both DM&E and CP is performed at Calgary. Finally, we plan to relocate DM&E's Customer Service team from Sioux Falls to Minneapolis during Q4 of 2010. Negotiations with employees affected by that proposed action are currently underway.

4. A summary of the economic investments you have made in freight service improvements for the past year.

CP's 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 \$ 3.2 billion in our core assets between 2007 and 2010, with annual capital spending over this period averaging approximately 17.1 percent of revenues.¹ Those investments included approximately \$2.4 billion for track and facilities - of which \$200 million related to capacity projects on various segments of CP's Core Network; \$440 million for locomotives; \$200 million for information technology; and \$400 million for freight cars and other equipment. Total capital investments for 2010 are expected to be in the range of \$ 750 million to \$ 800 million.

CP continues to pursue "rifle shot" projects to improve throughput and fluidity at several locations that support our U.S. grain exports and cross-border trade routes. For example, we installed a controllable retarder system at our Bensenville (Chicago) Yard in March 2010, at a cost of \$3.3 million. The new retarder system reduces car handlings (effectively increasing yard capacity) and addresses the threat to safety associated with over-speed cars. We anticipate that, in conjunction with internal process changes, this investment will make it possible to handle an additional 200 cars per day at Bensenville, which represents a 25 percent increase over current throughput.

CP is currently developing its capital investment plan for 2011. Capital projects are reviewed in light of anticipated demand and available cash flow. CP's annual capital budgets are subject to the approval of our Board of Directors. Details regarding our 2011 capital budget will not be released publicly until the fourth quarter.

¹ All dollar amounts set forth in this letter are in Canadian dollars.

CP is committed to making infrastructure investments where such expenditures are economically justified. However, we must also relentlessly pursue ways to increase effective capacity by optimizing the utilization of existing resources. CP cannot do this alone. The North American rail network operates every hour of every day of the year. A substantial number of our partners and customers do not. The most efficient logistics network is one that operates on a 24/7 basis. This minimizes the resources required to support the transportation element of the supply chain. A coordinated plan - involving railroads, shippers, receivers, ports and governments - that utilizes existing assets most efficiently can reduce the capital required for highways, ports and railways by billions of dollars. A collaborative effort among all stakeholders is required to ensure our collective success.

A strong and vibrant North American economy requires a safe and efficient freight rail transportation system. Legislative and regulatory certainty is critical to promote the investment necessary to enable CP (and other carriers) to meet the future needs of shippers. The threat of a return to extensive regulation would cause immense harm by restricting the ability of railroads to obtain financing on reasonable terms and to attract and retain equity investors. Such regulation would not only discourage investment in new infrastructure and technology, it could jeopardize “reinvestment” in existing facilities to maintain and enhance the safety and reliability of the rail network. Reasonable regulation and political support of the rail industry are critical to the ability of our industry to meet the future needs of North America’s shippers. I strongly urge the Board to maintain a regulatory environment that is conducive to such investments.

5. Anticipated rail congestion points and plans to improve them.

Based upon current traffic forecasts, CP does not anticipate any particular points of congestion arising on our network during the 2010 end-of-year period. Our IOP, in conjunction with the ongoing business processes described above, will enable us to respond in timely fashion to any unanticipated surge in traffic that may arise, and to adjust our resources (locomotives, railcars and crews) as necessary to maintain a fluid system and reliable train service.

6. Developments in passenger rail service access (Amtrak, Commuter or high-speed rail).

CP is a participant in five passenger rail projects initiated pursuant to the American Recovery and Reinvestment Act (“ARRA”):²

² Funding for, and implementation of, these initiatives is subject to the execution of definitive agreements among the Federal Government (FRA), the involved State Governments, Amtrak and CP.

In Wisconsin, CP will install crossovers, hot-box detector set-offs and other improvements on its line between Milwaukee and the Illinois/Wisconsin border. These investments are designed to improve service reliability for the sixteen daily Amtrak trains operating in that corridor.

CP will also add a second main track between Pewaukee and Watertown, WI (a distance of 27 miles), and construct new signals, bridges and other facilities between Milwaukee and Watertown (a distance of 47.5 miles). This investment will provide additional capacity to support up to six new round trip passenger trains between Milwaukee and Watertown. Those trains will extend Amtrak's existing Hiawatha service from Milwaukee to Watertown and (via a connection with State-owned track) from Watertown to Madison, the state capital. Amtrak will also introduce new "Talgo" trains (which have been purchased by the State of Wisconsin) on CP's lines in the state.

CP is participating with Ramsey County, MN in a project to configure support tracks for the planned revitalization of St. Paul Union Depot. The tracks will accommodate a new stop for Amtrak's Empire Builder service.

The State of Illinois applied for a 50-50 FRA funded renewal of two railroad bridges on CP's line at Wadsworth, IL (north of Chicago). Renewal of the bridges will improve the long term reliability of Amtrak service in the Chicago area.

In New York State, CP will construct two miles of second main track connecting D&H's Ballston Spa Siding and Saratoga Yard. This investment will improve reliability for four daily Amtrak trains that operate on D&H's lines north of Albany.

In addition to the above five initiatives under the ARRA, the State of New York and CP cooperated in filing a FY2010 HSIPR funding application for infrastructure improvements on the D&H between Schenectady and Rouses Point, NY.

The State of Wisconsin cooperated with CP in filing a TIGER II funding application for the proposed "Muskego Bypass," a rail project designed to route most freight traffic away from downtown Milwaukee. This investment will support long term local commuter and Amtrak growth objectives at the Milwaukee Intermodal Station.

Dodge County, WI has worked with the State and CP to file a TIGER II funding application to raise CP's main track above flood level at Reeseville Marsh, WI (west of Watertown). If approved, this grant will improve both passenger and freight service reliability at a location that currently experiences flood-related service interruptions.

The State of Wisconsin has worked with CP to apply for FY2010 SAFETEA-LU grants which, if awarded, will improve safety at grade crossings on the FRA-designated high speed passenger rail corridor between Milwaukee and the Wisconsin/Illinois border.

In addition to these specific projects, CP regularly provides input for both the Minnesota and Wisconsin State Rail Plans. CP also plans to participate in studies conducted by Minnesota and Wisconsin to evaluate the potential for higher speed passenger rail services between Madison, WI and the Twin Cities.

7. Amtrak on time performance on CP lines.

The most recent Amtrak report regarding host railroad performance ranked CP third among the 6 Class 1 railroads with respect to Amtrak's so-called "Host-Responsible" delay metric. End-point on-time performance measured by Amtrak for the most recently recorded month (July 2010) for each of Amtrak's four train services on CP is: Ethan Allen 64.5%; Adirondack 48.4%; Hiawatha 85.0%; Empire Builder 75.8%. These data take into account both Amtrak's operations on CP track as well as operation on other freight railroads that are part of the route. CP is committed to working with all stakeholders to continuously improve the performance of passenger trains operating on CP lines.

8. Efforts made in conjunction with container owners for expanding export container availability in remote areas of the US.

CP strives to provide competitive Intermodal services to ocean carriers serving the United States. We have made significant investments to improve transit time and service consistency between the Port of Vancouver and U.S. hubs such as Minneapolis and Chicago. CP currently transports containers between our Intermodal hubs, and does not control how or where those assets are distributed beyond the Intermodal terminals. Rather, the owners of the containers (i.e., ocean carriers or third parties) determine inland box distribution. Import container volume has been highly variable and unpredictable throughout 2009 and 2010 YTD, with significant increases following a record drop in volumes in 2009. CP has been focused on aligning train service and rail car supply with surges in imports to deliver containers to hub terminals, from which ocean carriers can distribute them to remote locations as required.

9. Status of the Positive Train Control initiative.

CP completed its PTC Implementation Plan ("PTC Plan") on schedule, in compliance with the statutory deadline for submission to FRA (April 16, 2010). In response to a request by FRA, CP subsequently amended the plan to include DM&E. CP's PTC Plan outlines a schedule for deploying PTC on its U.S. lines, explains how the system provides for interoperability, and includes CP's "Notice of Product Intent" describing both the technology and the operating concept that will be deployed on CP. CP's PTC Plan was approved by the FRA on August 27, 2010.

CP is participating on an industry task force to develop a template for PTC Safety Plan documentation, and is engaged in the design of the PTC Development Plan which must be filed with FRA by May 24, 2011.

CP has also established a PTC laboratory to conduct bench and field evaluations of PTC equipment, and to test communications between PTC system components (dispatch system to back office to locomotive onboard device to wayside devices) as newly developed products become available. This laboratory effort will enable CP to perform an incremental evaluation of system functions by simulating components before they are available.

CP's estimate of the overall cost of deploying PTC, currently \$250 million by 2015, will be revised as appropriate when vendors are able to supply production samples of PTC equipment and CP gains practical experience from field pilot studies.

10. A report on your company's most recent customer service survey.

CP does not conduct written customer service surveys at regular intervals. Instead, CP collects customer feedback via its Customer Service team, which responds directly to customer questions and concerns on a day-to-day basis. CP also has "dedicated" customer service representatives who work directly with certain customers. Through these processes, CP has not identified any current systemic service problems.

CP establishes a variety of performance goals that are designed to improve system fluidity and maximize peak throughput capabilities. CP's IOP is built on the core design principles of velocity, balance and network. We believe that by adhering to those principles, CP can deliver more consistent services from the planning stage through execution. The success of our approach is reflected in the following key performance criteria:

- Average train speed has increased by 13 percent since 2005.
- Average terminal dwell time has declined by 31 percent since 2005.
- Average car miles per day has improved by 49 percent since 2005.

A specific example of the IOP's core design principles in action is our Service Reliability Program, which CP introduced in 2010 to improve first mile - last mile service to our customers. The program requires disciplined inventory management by both CP and our customers to ensure that CP yards remain fluid. Key components of the Service Reliability Program include:

- Implementation of a "Place upon Arrival" delivery model
- A 48-hour delivery standard from "arrival" to "placement" at a customer's siding
- Daily service has been increased to 7 days per week for all customers in the program
- Management processes designed to control excess car inventory at CP yards
- Encouragement of proactive pipeline management by customers

CP conducted a 60-day pilot of the Service Reliability Program in Winnipeg starting in June 2010. The pilot was a clear operational success; within one month, the average “arrival” to “placement” time was reduced by 53 percent. Following the Winnipeg pilot, CP conducted a telephone survey with customers who participated in the program. The majority of respondents believed that the program maintained or improved the quality of service that they received from CP. Based upon the success of the Winnipeg pilot, CP plans to implement the Service Reliability Program across our Canadian and U.S. network over the next 12 months.

CP anticipates that the Service Reliability Program will drive significant long-term benefits, including more consistent service; reduced operating costs; improved carrier/customer communication; better management of the root causes of service issues; and clearer accountability for both customers and CP.

Adherence to our core principles, and a strong emphasis on operational excellence, have enabled CP to achieve substantial improvements in both safety and service performance over the past several years. By maintaining our focus on continuous improvement, we are confident that CP will meet the challenge of providing the efficient and competitive rail services that our customers require as the North American economy recovers and expands.

Sincerely,



F. J. Green
President and Chief Executive Officer

cc: The Honorable Francis P. Mulvey, Vice Chairman
The Honorable Charles D. Nottingham
Mr. Edward R. Hamberger, AAR