



**CANADIAN
PACIFIC**

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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 2013 Railroad Service Outlook

Dear Chairman Elliott:

Thank you for your letter of August 1, 2013 regarding Canadian Pacific's ("CP's") plans for responding to the demand for U.S. rail service during the balance of 2013 and 2014.

While traffic volumes have grown, we continue to experience volatility in the volumes tendered for movement based on the economic climate related to specific lines of business. CP is well-positioned to handle increased traffic volumes efficiently and safely.

We work closely with our customers 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.

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

1. Expectations for any seasonal peaks in carload and both domestic and international intermodal traffic.

The view below is based on our interpretation of the global macro-economic conditions. There are a number of significant global economic uncertainties in the European and Chinese markets and this creates risks that could substantially change the actual demand experienced by CP.

BULK:

- U.S. Grain, particularly in the Dakotas, has recovered from weak 2012 crop production rates and saw growth in all commodities in 2013. In 2014, we believe that the current crop prospects are for an equally robust harvest.

- In fertilizers and sulphur, we estimate volumes to be in line with 2012. There are strong demand fundamentals for domestic fertilizer application as both farm incomes and grain prices remain healthy.

INTERMODAL:

- In Intermodal business, we expect above GDP growth, particularly in domestic intermodal markets.
- The seasonality will be consistent with past years. *Automotive demand will trend with vehicle sales for the first half of the year.*

MERCHANDISE:

- In our merchandise segment, we expect continuing strong volumes driven by energy related demand growth, specifically frac sand and crude oil commodities.

2. Resources to meet any upticks in volume, including a discussion of freight car, locomotive, and labour (train crew availability).

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 facilitate communication with key customers, port and terminal facilities to determine whether adjustments are required to maintain efficient and fluid operations.

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 sophisticated forecasting system that takes into account macro-economic factors by industry segment to project demand by specific origin-destination pairs. This supports the granularity required to design and execute both our service and resource planning processes. Our Marketing and Operations teams meet regularly to review changes in demand and develop an appropriate response to such changes.

CP will continue to leverage existing business processes to match demand with appropriate resources and deliver service that reflects both available resources and realistic performance targets. We are confident, given record productivity and utilization results in 2013, that we are appropriately resourced to manage fluctuations to demand in 2014 with available rolling stock and labour assets.

3. Specific plans to support demands for prompt movement of finished autos and light trucks.

CP continues to support both the Chicago Transportation Coordination Office (CTCO) and the Chicago Planning Group (CPG) in their efforts to streamline information exchange and coordination of operations. CP is participating in the CREATE program specifically aimed at alleviating rail traffic congestion in Chicago. The placement of a dedicated representative within the Chicago interchange facility has enhanced the overall resiliency of this important railway interchange for finished autos and light trucks.

CP continues to support blocking our in-bound auto trains to the IHB at Gibson to facilitate expeditious flow through the Chicago area. CP is also exploring alternative interchange points, such as Kansas City, to improve both loaded and empty transit times. Automotive demand originating in the Windsor/Agincourt, Ontario to Chicago, Illinois lane has decreased as of July 2013, resulting in a surplus of multi-level assets to support customer demand in alternate lanes and improve service to the automotive industry in both Canada and the United States.

4. Specific plans to support demands for movement of crude oil and of oil and gas drilling activity.

CP continues to pursue projects to improve throughput and velocity at several locations that support our U.S. Grain exports, Ethanol, Crude oil and related commodity volume growth linked to cross-border trade routes. In the energy sector, CP continues the investment plan announced in 2011 to allow expanded network capacity and enhanced rail service in order to meet increased traffic demands.

Strategic capacity expansion work on the Newtown, Portal and Carrington subdivisions has been largely completed by 2013:

- siding /yard track extensions
- increased budget for maintenance work on the Newtown subdivision
- strategic installation of snow fence and grading projects to reduce winter snow drifting

In 2014, CP is expected to spend additional capital to support incremental crude oil and frac sand traffic originating in North Dakota, Minnesota and Wisconsin, including additional hot box detectors (HBD), to allow for safe, fluid movement of multiple demand trains over the subdivision.

Privately developed unit train facilities at originating points in Western Canada (e.g. Hardisty, Edmonton, and Kerrobert) are coming on-line in 2014, and CP is focused on mainline capacity enhancements to support the safe and reliable movement of this demand to cross-border destinations.

5. A summary of the investments made in freight service and capacity improvements for the past year as well as areas of existing or anticipated rail traffic congestion and your plans for remediation.

Our annual capital program typically includes investments in track and facilities (including rail yards and intermodal terminals), locomotives, information technology ("IT"), freight cars and other equipment. On an accrual basis, we invested approximately \$3.6 billion in our core assets from 2011 to 2013, with annual capital spending over this period averaging approximately 20% of revenues. This included approximately \$2.4 billion invested in track and roadway, \$0.5 billion in rolling stock, \$0.3 in other equipment, \$0.3 billion in IT and \$0.1 billion in buildings.

Additions to properties ("capital programs") in 2014 are expected to be in the range of \$1.1 billion to \$1.2 billion. Planned capital programs include approximately \$850 million to preserve existing capacities through replacement or renewal of depleted assets, up to \$75 million to address capital regulated by governments, principally positive train control, and the remainder will be allocated to network capacity expansions, business development projects and productivity initiatives.

Strategic multi-year locomotive initiatives support increased capacity, service delivery, further the company's long train strategy, reduce emissions, and contribute to the company's annual fuel efficiency improvement target.

Through Progress Rail Services' Electro-Motive Diesel (EMD) subsidiary, CP is modernizing a key portion of its low and medium horsepower locomotive fleet. The remanufacture program of these locomotives began in 2012 to support yard productivity and terminal dwell reduction goals. Improved fuel efficiency, reduced maintenance costs and compliance with 2015 Tier 4 emissions standards are also benefits of the program. The average age reduction of CP's locomotive fleet improved reliability indicators in 2013 and we expect continued improvements as we take delivery of ~ 60 additional remanufactured units in 2014.

In summary, CP is committed to making infrastructure investments where such expenditures are economically justified and to relentlessly pursue ways to increase effective capacity and asset utilization of existing resources.

A strong and vibrant North American economy requires a safe and efficient freight rail transportation system. Legislative and regulatory certainty that is conducive to investment is critical to enable CP and other carriers to meet the future needs of shippers.

6. Developments in passenger rail service access (Amtrak, Commuter or high-speed rail) and related on-time performance.

In 2013, CP undertook multiple initiatives to improve reliability for passenger trains:

- CP installed crossovers, hot-box detector set-off tracks, updated hot-box detector electronics and other improvements between Milwaukee and the Illinois/Wisconsin border to support safety and service levels.
- CP replaced two bridges near Wadsworth, Illinois, and constructed 2.2 miles of second main track connecting Ballston Spa Siding and Saratoga Springs Yard.
- Slow orders were also removed in the North Eastern U.S., improving the performance of Amtrak's Adirondack and Ethan Allen trains.

Work is presently underway to accommodate a new stop for Amtrak's Empire Builder at the Union Depot in St. Paul, and plans are progressing for construction of a new train shed and other improvements at the Milwaukee passenger station.

Planning work is underway with the States of Illinois, Wisconsin and Minnesota to add more passenger trains between Chicago and Milwaukee and to add a second passenger train between Chicago and the Twin Cities.

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

In 2013, CP introduced Customer Station, and we will have over 95% of our customers utilizing online tools by year end 2014. This secure customer portal provides self-serve tools that allow customers to order in, release and trace equipment, see historical transit times, view and pay invoices and dispute online. We have bi-annual customer forums and surveys that request customer feedback on our site; our latest survey had 900 customer responses. We utilized this information to further develop our offering, including an improved online bill presentment and payment tool, supplemental view, and disputing and online rate retrieval, this year. We have also introduced mobile tools to our customers so that they can work anytime, anywhere. Our external offering, combined with our internal real-time reporting (AIR), means that we are providing our customers with information as it happens to allow us to work together, collaboratively, on any issues that may occur. We will continue to expand our online capabilities to address customer concerns and ensure alignment.

8. Conclusion

CP establishes a variety of performance goals that are designed to improve service delivery, network velocity and maximize peak throughput capabilities. CP's OP is built on the core design principles of velocity, balance and network. We believe that by adhering to those principles, CP can deliver consistent service from the planning stage through execution. Adherence to our founding principles, and a strong emphasis on operational excellence, has enabled CP to achieve record-breaking results in 2013 and we expect this trend to continue in 2014.

CP is investing with our customers for service, productivity and future growth. We are well positioned to handle forecast demand while, at the same time, contributing to improvements in the overall supply chain by reducing dwell and maximizing throughput. Our commitment is to provide the products and services that will enable our customers to grow their businesses at home and globally.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert A. Johnson". The signature is written in a cursive style with a large initial "R".

Robert A. Johnson
Vice President Operations
Southern Region

cc: The Honorable Ann D. Begeman, Vice Chairman