



**CPKC**



# Strengthening Resiliency: 2024-2025 Winter Contingency Report

September 30, 2024

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## Message from the President and Chief Executive Officer

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On behalf of Canadian Pacific Kansas City (“CPKC”), it is my pleasure to present our 2024–2025 Winter Contingency Report. This is our seventh annual winter report, and our second since the historic combination of Canadian Pacific (“CP”) and Kansas City Southern (“KCS”) on April 14, 2023, to create CPKC, the first and only Class 1 railway network uniting North America by seamlessly connecting Canada, the U.S., and Mexico. This report describes our plan to safely and reliably transport grain, along with other traffic, when faced with challenging winter weather.

Railroading is an outdoor sport. Challenging weather conditions can have a significant impact on railway operations. Each year, across our North American network, we plan for the challenges associated with railroading in extreme weather to mitigate the impacts to the extent possible so that we can continue delivering for our customers. We plan for a wide range of weather conditions and events, including storms, heat, floods, earthquakes, hurricanes, and even volcanic activity. On our Canadian railway network, some of the most challenging weather conditions for railway operations occur during the winter months.

We have been railroading in challenging winter conditions since 1881. Our company pioneered railroading in the harsh Canadian winter. Whether it is building snowsheds, adding switch heaters, or installing sensor technologies, our history is one of constantly innovating to mitigate the inherent challenges of operating a railway in the winter, including through the steep mountain ranges of Alberta and British Columbia.

We have achieved significant improvements to the capacity and resiliency of our railway network, including and especially during the winter months, since our legacy CP network adopted the precision scheduled railroading (“PSR”) operating model in 2013. One example that illustrates the magnitude of this achievement is that CPKC is prepared to supply the capacity to transport approximately one third more grain during the 2024–2025 crop year than it transported during the 2013–2014 crop year.

Safety is foundational to everything that we do at CPKC. Certain severe winter weather conditions require adjustments to our operations to maintain safety. When temperatures drop below negative 25 degrees Celsius, a train’s speed, length, and weight must be reduced to safely operate. These necessary operational changes unavoidably lower overall system velocity, which in turn lowers supply chain transportation capacity. This is a reality of winter railroading.

The type, severity, and geographic scope of winter weather conditions vary dramatically from year to year. As such, CPKC plans for various winter weather scenarios across North America. Effective winter planning helps prepare the railway for different winter scenarios so that CPKC can safely serve the needs of its customers, and by extension the entire Canadian economy, even during the most unforgiving and prolonged winter operating conditions.

CPKC is preparing for the upcoming winter with the same innovative spirit and tenacity that have driven this company and its railroaders since 1881. We look forward to delivering for our customers and powering the economy throughout the upcoming winter season.

Respectfully,



Keith Creel

President and Chief Executive Officer

## Executive summary

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This report outlines CPKC's commitment to safely delivering for its customers through challenging winter weather on the Canadian rail network. Through investment, operational innovation, diligent planning, and the resolve of its railroaders, CPKC is prepared to provide strong service through the upcoming winter. Highlights of the 2024–2025 report:

- CPKC continues to lead the North American railway industry in safety performance. In 2023, CPKC had the lowest Federal Railroad Administration (“FRA”) reportable train accident frequency of any Class 1 railway in North America. This result builds upon CP’s legacy of leading the industry for 17 consecutive years.
- While it is still early in the season, the Canadian Centre for Climate Modelling and Analysis (“CCCMA”) and the U.S. National Oceanic and Atmospheric Administration (“NOAA”) suggest that La Niña is expected to re-emerge and influence autumn weather patterns in North America, which will continue into the 2024–2025 winter. This is a return to the dominant weather pattern from the three years preceding last winter, which delivered colder-than-normal temperatures and increased precipitation. As winter approaches, CPKC refines forecast models as higher probability data becomes available.
- As part of winter contingency planning, CPKC analyzes weather models and subsequently develops specific winter plans for each region, subdivision, rail yard, and facility across the network. CPKC develops winter contingency plans for Operations employees, Engineering and Mechanical personnel, and the Operations Centres. We strategically place assets and resources (i.e., snow removal equipment and sand) in locations throughout the network to facilitate rapid responses to winter weather. CPKC also works with government agencies to develop winter plans for Canadian mountain corridors.
- On August 20, 2024, Agriculture and Agri-Food Canada (“AAFC”) estimated the total size of the Canada-wide grain crop to be 93.7 million metric tonnes (“MMT”). This is marginally lower than AAFC’s July 2024 estimate of 95.6 MMT and the June 2024 projection of 94.4 MMT. Considering the latest AAFC estimate, a Western Canadian crop size of approximately 71 MMT is anticipated.
- As outlined in CPKC’s 2024–2025 Grain Service Outlook Report, CPKC plans to supply the capacity required to move up to 685,000 metric tonnes (“MT”) of Canadian agricultural products on average each week when the Port of Thunder Bay is open (generally from August through early January, and from April to July). During the winter months when the Port of Thunder Bay is closed, CPKC plans to supply the capacity required to move up to 525,000 MT of Canadian grain and grain products on average each week. These supply targets are conditional on market demand and all elements of the grain supply chain functioning at optimal performance, efficiency, and synchronization.
- CPKC continues to invest in the people, equipment, and infrastructure needed to safely and efficiently transport grain and other traffic throughout the winter and all other seasons. These investments have achieved significant improvements to the capacity and resiliency of the railway network during the winter period and all year round.
- There are several public policy choices that continue to negatively impact Canada’s ability to maximize the export of Canadian goods, including grain and grain products. For example, the decision by many terminal operators to suspend grain loading onto vessels in inclement weather at the Port of Vancouver is a significant constraint on Canada’s grain export capacity during the winter months, which generally see the highest demand for grain transportation. Extended interswitching and labour instability are other examples of policy choices that risk undermining supply chain performance during the winter months and throughout the year.

## Introduction

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CPKC is pleased to submit its 2024–2025 Winter Contingency Report to the Minister of Transport, as required by Section 151.01 (2) of the *Canada Transportation Act* (“CTA”). This annual report outlines CPKC’s contingency plans that enable the transportation of grain, along with other traffic, when faced with winter weather conditions.

**Part 1** looks ahead to winter 2024–2025 by reviewing weather forecasts and CPKC’s contingency planning and winter readiness.

**Part 2** provides an assessment of CPKC’s ability to transport grain, along with other traffic, during the upcoming winter season, based on current winter forecasts and anticipated customer demand.

**Part 3** outlines CPKC’s industry-leading safety record and describes how capital investments, robust hiring, and operational innovations have enabled strong winter performance despite the many challenges of railroading during the Canadian winter.

**Part 4** reviews certain public policy choices that continue to negatively impact supply chain capacity and reliability in the winter and throughout the year.



## Part 1: CPKC's 2024–2025 winter contingency planning

Winter contingency planning begins each summer as CPKC starts analyzing weather data and forecasts for the upcoming winter. CPKC analyzes predictive meteorological modelling to help forecast conditions expected during the upcoming winter, including type, severity, and geographical reach. Although forecasts are predictions that can never be relied upon, they are a critical planning tool that helps CPKC prepare for winter conditions.

Once weather models are analyzed, CPKC then develops specific winter plans for each region, subdivision, rail yard, and facility across the network. CPKC strategically places assets and resources (i.e., snow removal equipment and sand) in locations throughout the network to improve CPKC's ability to respond quickly to winter weather. CPKC also develops winter contingency plans for Operations employees, Engineering and Mechanical personnel, and the Operations Centres.

### 2024–2025 winter forecast and modelling

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The following is a summary of CPKC's early winter forecast, which is based on the best available modelling and data from various meteorological services at the time of publication.

- The CCCMA and NOAA currently estimate a 71 percent probability of La Niña conditions forming between September and November. Their estimate increases to 74 percent for the upcoming winter months.
- Typical La Niña weather patterns result in a colder geographic centre of Canada, while increased precipitation is commonly observed in the Canadian Rockies, Northern United States, and the Great Lakes region.
- Persistent La Niña conditions are expected to increase the frequency and magnitude of tropical storms in the Atlantic Ocean, potentially affecting the Eastern and Gulf Coasts of the United States.

- Regional breakdown of probable forecasts:
  - » **British Columbia:** Above-normal precipitation in the Lower Mainland and Rockies and average temperatures.
  - » **Prairies and Northern Ontario:** Average precipitation and slightly below-average temperatures.
  - » **Ontario and Québec:** Above-average precipitation in the upper Great Lakes and average temperatures.
  - » **Atlantic Region:** Near-normal precipitation and temperatures. NOAA continues to predict above-normal hurricane activity for the remainder of the Atlantic hurricane season. The outlook for the Atlantic basin calls for a 90 percent chance of above-normal activity, with 17 to 25 total named storms expected.
  - » **U.S. Midwest:** Normal precipitation and near-normal temperatures.
  - » **U.S. South and Gulf Coast:** Below-normal precipitation and above-normal temperatures.
  - » **Mexico:** Normal precipitation and near-normal temperatures.

## Contingency planning and winter readiness

CPKC has systems to monitor weather conditions across the rail network. For example, hot box detectors provide real-time, track-level monitoring of ambient temperatures.

This provides continuous situational awareness of changing temperatures and winter operating conditions, which informs operational decision making.

### CPKC's Ambient Temperature (Hot Box Detector) Monitoring



CPKC deploys assets and equipment to clear snow and mitigate the impact of winter.

### CPKC snowplow/snow spreader



*Heavy-duty snowplow and snow spreading operations.*

### Railway switch heater



*Forced hot air directed through ductwork melts snow and ice from switch components.*

## CPKC snowfighter



*Smaller multi-purpose snow clearing equipment and snowplows help to spread and blow snow.*

## Snow removal

CPKC uses specialized trucks and heated blowers to remove snow from tracks and switches. This equipment includes 114 snowfighters (permanent snowfighters and ballast regulators converted to snowfighters), 37 cold air blowers (AF1 or equivalent and portable), two hot air blower jet engines, and one portable gateway blower.

## Distributed locomotive power

CPKC uses distributed power to improve train handling and air brake performance. Instead of locomotive power only at the front or rear of a train, a distributed power model positions locomotives throughout the length of the train. Distributed locomotive power placement is used to maintain brake pipe air pressure when the ambient temperature falls. Distributed locomotive power enables air supply to the brake pipe at multiple points on the train to maintain consistent pressure, which can be critical for segments on CPKC's network that experience persistent periods of extremely low temperatures during the winter months.

## System recovery

Through effective planning and disciplined execution, CPKC supports expedited system recovery when severe weather causes network outages. As always, the first priority is the safety of CPKC employees and local communities. CPKC's response to a system outage involves the deployment of heavy equipment and contractor resources to the site. Senior company officers and management crews typically deploy to oversee recovery. CPKC works 24/7 until normal operations are restored.

## Weather station at Stephen, Alta.



*CPKC has installed weather stations between Calgary, Alta. and Swift Current, Sask. to obtain more pinpointed wind gust data. This data helps drive informed operational decisions, reducing the risk of train derailments during winter polar vortex conditions.*

*CPKC's Stephen, Alta. weather station includes a remote viewing camera to monitor surrounding snow conditions. The weather station provides real-time data that measures the atmospheric conditions CPKC trains will encounter in the area.*





## Avalanche preparedness

CPKC's busiest corridor runs through the Alberta and British Columbia mountain ranges. Given the significant annual snowfall in these areas, avalanches can pose a risk to railway operations.

In areas prone to avalanches, CPKC has nearly 50 snowslide/rockslide fences (composed of poles and connecting wires) and seven snowsheds (one in Alberta and six in British Columbia). The fences activate the signal system to prevent trains from proceeding if snow or rocks pass through the connecting wires. A snowshed provides overhead protection by allowing snow to pass over tracks and trains when an unplanned avalanche occurs. This type of infrastructure significantly improves operational safety in avalanche-prone areas of the network.

CPKC monitors snowpack conditions in proximity to the tracks. Crews will set off controlled avalanches when there is a high risk of a natural avalanche and will perform proactive avalanche management. Avalanche control increases operational safety and preserves capacity that would otherwise be lost through extended shutdowns.

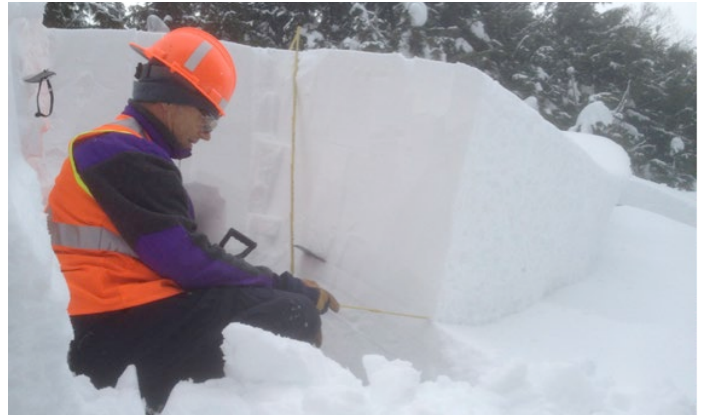
## Snowslide/rockslide fence



## Snowshed



## Snowpack monitoring



## Avalanche control



## Collaboration with Avalanche Canada and government agencies

In collaboration with Avalanche Canada and provincial and federal agencies, CPKC develops winter plans for the mountain corridors in Alberta and British Columbia. CPKC's western corridor faces unique challenges posed by steep mountain grades, sharp curves, and proximity to steep mountain topography. This planning includes the use of external resources that provide CPKC with avalanche zone safety information, search and rescue training, and avalanche condition monitoring and control. In addition, CPKC coordinates avalanche control with Parks Canada and the British Columbia Ministry of Transportation and Infrastructure. This coordination minimizes disruptions and maximizes safety performance in mountain passes and river valleys where the railway and highway are in proximity.



## Customer and industry collaboration and communication

CPKC is committed to strong customer communications and responsiveness, especially during winter operations. CPKC's Sales and Marketing team is in regular contact with customers to communicate the impact winter weather is having on the network. CPKC is also in regular contact with governments of all levels and relevant agencies to communicate these impacts and contingency plans.

CPKC is focused on delivering world-class service and results to its customers. CPKC uses multiple tools to facilitate direct communications and provide access to up-to-date shipment and network information.

**Customer Station:** A web-based self-service option for shipment tracking and information, pipeline visibility, equipment status, bulletins, and customer alerts.

**Customer Service:** Customers can reach CPKC representatives at the Network Service Centre day or night via toll-free telephone (1-888-333-8111), email, or online messaging ("log an issue" feature).

**Specialized Teams:** CPKC's specialized service teams assist customers with a full range of matters, including asset management, customs reporting, and waybills.

**Customer Advisory Council:** Provides important annual feedback on a range of customer service initiatives to enhance service and supply chain integration.

**Carbon Emissions Calculator:** This innovative web-based tool is designed to give customers greater insight into the carbon footprint of CPKC's transportation services by allowing users to estimate the potential GHG emissions reductions they may achieve using CPKC's rail services compared to long-haul trucking alternatives. The calculator incorporates customer-specific shipping details to calculate routes across CPKC's North American rail network and commodity-specific GHG emissions. The calculator also provides information on highway safety and other public benefits of shipping with CPKC's freight rail services.

**CPKC is focused on delivering world-class service and results to its customers. CPKC uses multiple tools to facilitate direct communications and provide access to up-to-date shipment and network information.**

## Part 2: Transporting grain and other traffic during the 2024–2025 winter season

### TCRC work stoppage

While preparing for the upcoming winter season, CPKC has worked closely with customers on a safe, balanced recovery of the rail network following the Teamsters Canada Rail Conference ("TCRC") work stoppage that occurred between August 22 and 26, 2024.

### Grain crop size forecasting

Since the publication of CPKC's 2024–2025 Grain Service Outlook Report on July 31, 2024, AAFC has updated its estimates for this year's crop size. On August 20, 2024, AAFC estimated the total size of the Canada-wide crop to be 93.7 MMT. This is marginally lower than AAFC's July 2024 estimate of 95.6 MMT and the June 2024 projection of 94.4 MMT. Considering the latest AAFC estimate, CPKC currently anticipates a Western Canadian crop size of approximately 71 MMT.

CPKC works with grain customers to understand specific demand forecasts so that we can effectively plan capacity on the railway across all lines of business. Precise customer forecasts are critical to CPKC's resource planning.

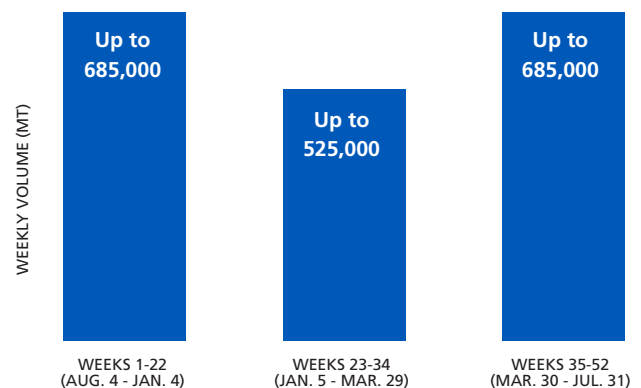
### Grain transportation capacity supply targets

The Port of Thunder Bay is a major outlet for Canadian export grain transported by vessel on the St. Lawrence Seaway, but it closes each year through the winter months when ice buildup prevents vessel navigation. The five-year historical average date for the closure of seaway navigation is January 12 and the five-year average opening date is March 27.<sup>1</sup>

As described in CPKC's 2024–2025 Grain Service Outlook Report, CPKC is well positioned to move grain and other traffic during winter 2024–2025.<sup>2</sup> Based on current customer forecasts, and subject to market demand, CPKC is planning to supply the capacity required to move up to 685,000 MT of grain and grain products each week on average during Grain Service Weeks 1-22 (August 4 to January 4) and Grain Service Weeks 35-52 (March 30 to July 31), when the Port of Thunder Bay is expected to be open. During the winter period, CPKC is planning to supply the capacity required to move up to 525,000 MT of grain

and grain products each week on average through Grain Service Weeks 23-34 (January 5 to March 29) when the Port of Thunder Bay is closed. These supply targets are conditional on market demand and all elements of the grain supply chain functioning at optimal performance, efficiency, and synchronization.

FIGURE 1: CPKC 2024–2025 CROP YEAR SUPPLY TARGETS FOR CANADIAN GRAIN AND GRAIN PRODUCTS TRANSPORTATION



<sup>1</sup> Port of Thunder Bay website, Port Cargo Statistics 1952-Present, available online at <https://www.portthunderbay.ca/administration/cargo-statistics/>.

<sup>2</sup> CPKC 2024–2025 Grain Service Outlook Report. Published July 31, 2024. Available online at <https://www.cpkcr.com/content/dam/cpkclour-markets/canadian-grain/Grain-Report-2024-2025-Web-FINAL.pdf>.

## Unused capacity during the 2023–2024 crop year

CPKC's 2023–2024 Grain Service Outlook Report indicated that the railway had the capacity to transport more than 33 MMT of Canada's grain and grain products during the past crop year. With a healthy carry-out volume from the previous crop year, and a near average crop yield, CPKC

anticipated and planned for strong demand over the course of the crop year. While there were ebbs and flows in demand for grain transportation like any crop year, strong demand in the fall and January period did not materialize.



Demand was often well below available capacity throughout the 2023–2024 crop year. In fact, more than 9.7 MMT of available capacity went unused by grain customers on the CPKC Canadian rail network for grain transportation. Capacity cannot be saved up and used later; capacity unused in the week it is available is lost capacity that cannot be recovered. CPKC managed significant demand variability throughout the year, including in the winter months, to provide strong service to its customers.



FIGURE 2: GRAIN & GRAIN PRODUCTS VOLUME TRANSPORTED VS UNUSED CAPACITY (2023–2024)

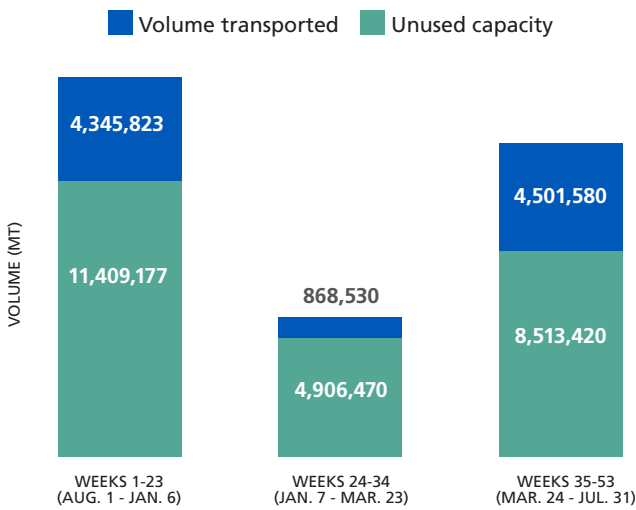


FIGURE 3: GRAIN SERVICE WEEKS 1 - 23 (AUG. 1 - JAN. 6) CROP YEAR 2023–2024

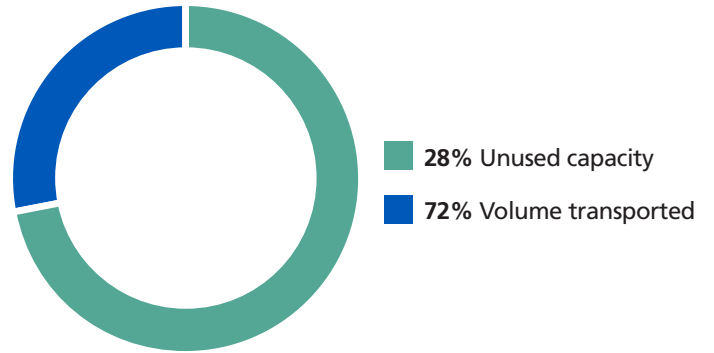


FIGURE 4: GRAIN SERVICE WEEKS 24 - 34 (JAN. 7 - MAR. 23) CROP YEAR 2023–2024

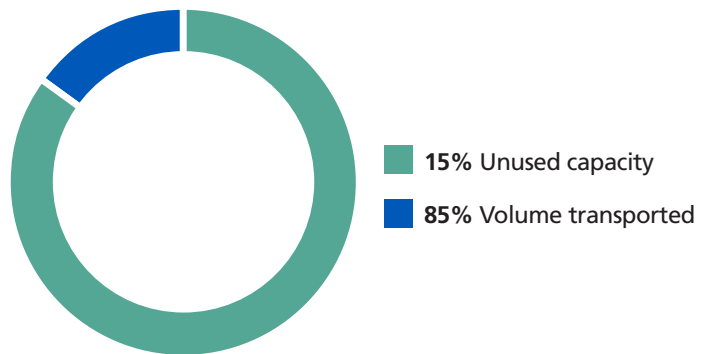


FIGURE 5: GRAIN SERVICE WEEKS 35-53 (MAR. 24 - JUL. 31) CROP YEAR 2023–2024

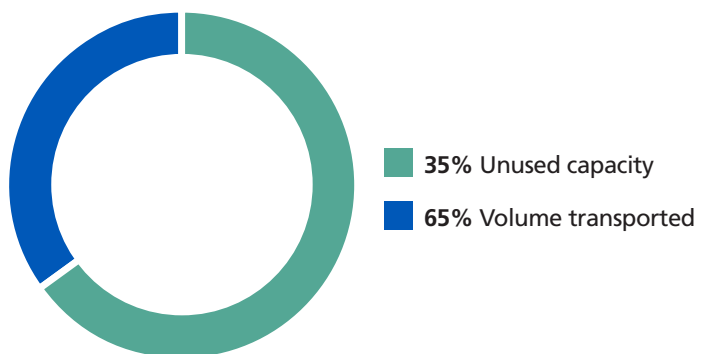
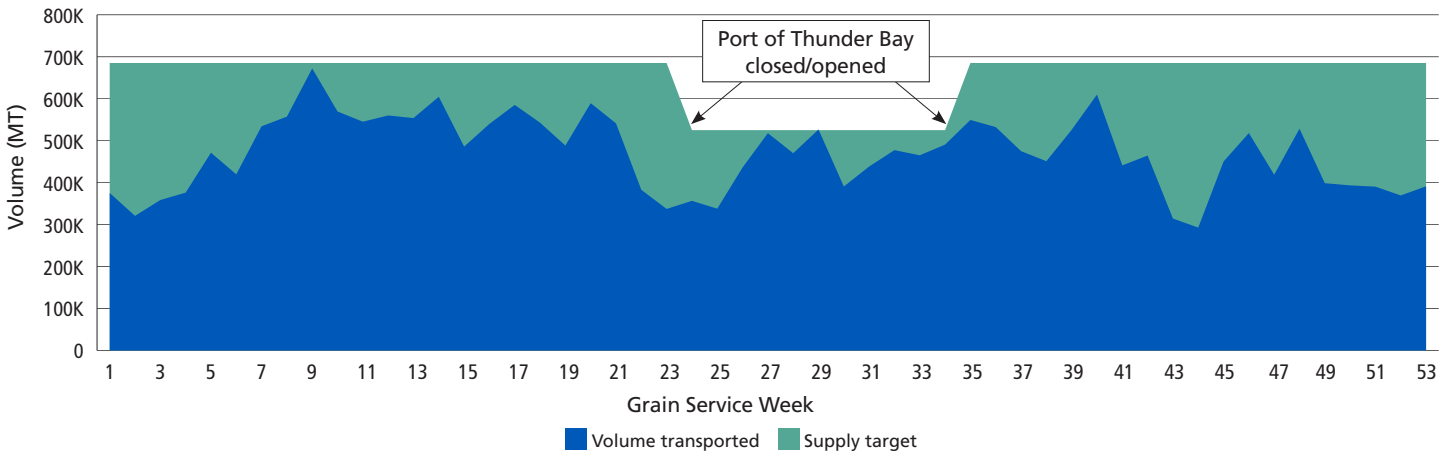


FIGURE 6: CPKC GRAIN & GRAIN PRODUCTS TRANSPORTED VS SUPPLY TARGET (2023–2024)



## All grain cannot move at once

The grain supply chain simply cannot move an entire crop at once if market participants decide to wait for a specific price to sell. No efficient supply chain in the world can transport all the grain at once in a short, price-maximizing window. Rather, the only way to maximize supply chain throughput is to have continuous, efficient, and balanced movements from in-country grain elevators to port terminal facilities throughout the duration of the crop year. Significant demand variability and uncertainty creates challenges that undermine supply chain throughput and capacity for the movement of agricultural products and other commodities. Importantly, grain transportation must be balanced with other commodities that use rail transportation in their supply chains.

CPKC believes strongly in the market. Grain customers and Canadian farmers are all players in the marketplace, as is CPKC. They rightly make their own business decisions regarding when, where, and how to ship their products, based on their own market dynamics and considerations. We respect that. However, farmers and grain customers must make fully informed business decisions with respect to supply chain functions and risks (including those risks associated with challenging operating conditions during the harsh Canadian winters) in order for Canada to maximize the export potential of its agricultural and other export products.

## CPKC’s combined network benefits Canadian shippers

The combined CPKC rail network has expanded routing and market optionality across North America for customers. For example, nearly 18 months after the historic combination, we have seen increased rail shipments of Canadian grain to Mexico and the southern U.S. The increased destination optionality afforded to Canadian grain shippers allows them to further penetrate markets and realize opportunities beyond the traditional Vancouver and Thunder Bay export programs.



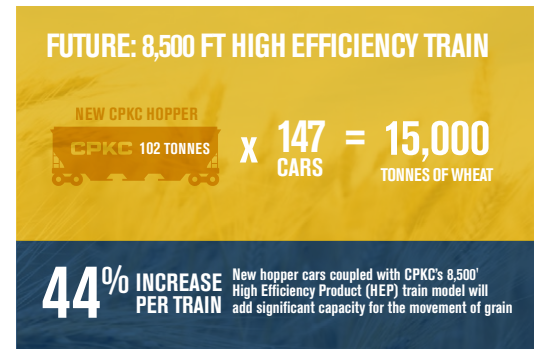
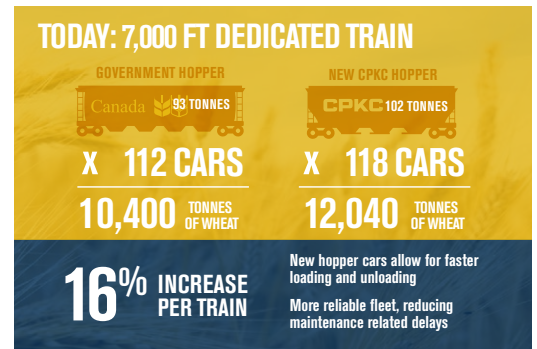
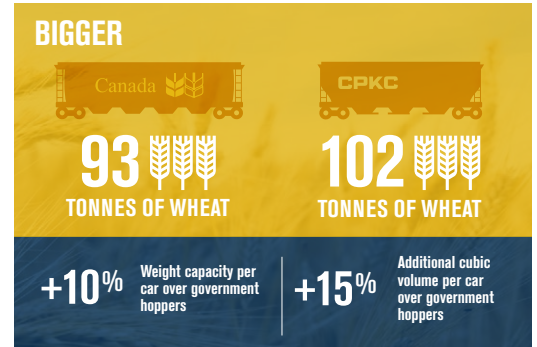
# Grain hopper car investment

CPKC's fleet of grain hopper cars has grown substantially in recent years. CPKC's more than \$500 million investment to purchase 5,900 Canadian-made, high-capacity grain hopper cars is complete. Approximately 90 percent of CPKC's expanded grain hopper fleet is now high capacity. This investment has significantly increased CPKC's capacity to transport Canadian grain year-round.

When combined with CPKC's 8,500-foot High Efficiency Product ("HEP") train model, these high-capacity hopper cars are delivering more than 44 percent more volume capacity in each grain unit train.



FIGURE 7: BENEFITS OF CPKC'S HOPPER CAR INVESTMENT



## Part 3: Winter operating performance

### Industry-leading safety performance

In 2023, CPKC led the industry with the lowest FRA reportable train accident frequency in North America, building on CP's legacy of leading the industry for 17 straight years.<sup>3</sup> CPKC's train accident frequency in 2023 was 70 percent lower than the Class 1 industry average, a gap that has widened considerably over the past decade since CP adopted the PSR operating model.

Safety is a journey, not a destination. CPKC is committed to continuous safety improvements. Through initiatives like CPKC's Home Safe program, which promotes safety engagement and feedback, CPKC is striving to further enhance the safety culture across the company. By expanding

the implementation of technology and using data and analytics, CPKC is predicting and detecting more track and equipment failures. CPKC also regularly modifies training for employees, including by utilizing new, engaging methods.

CPKC's latest quarterly results show further improvements in key safety metrics. For instance, the company's train accident frequency declined by 4 percent in the second quarter of 2024 compared to the second quarter of 2023. CPKC's FRA-reportable personal injury frequency improved by 38 percent in the second quarter of 2024 relative to the second quarter of 2023.<sup>4</sup>

FIGURE 8: FRA-REPORTABLE TRAIN ACCIDENT FREQUENCY (PER MILLION TRAIN-MILES)

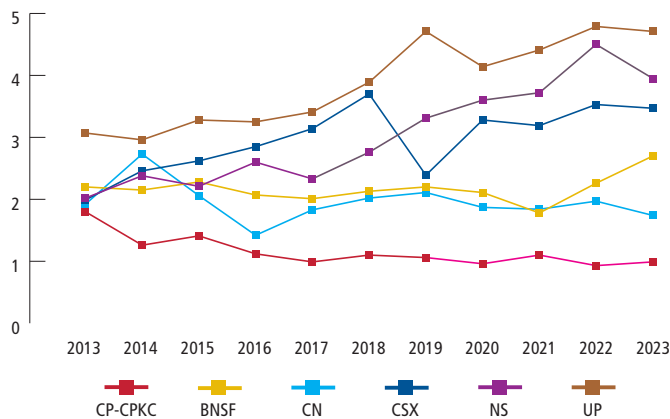
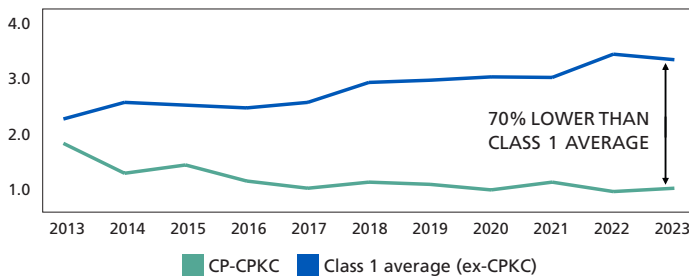


FIGURE 9: CPKC VS. CLASS 1 AVERAGE FRA TRAIN ACCIDENT FREQUENCY (PER MILLION TRAIN-MILES)



<sup>3</sup> FRA statistics for 2023 reflect CP and KCS results on a combined basis.

<sup>4</sup> FRA statistics for 2023 reflect CP and KCS results on a combined basis, as if CP's acquisition of KCS occurred on January 1, 2023. CP and KCS officially combined on April 14, 2023.

FIGURE 10: FRA-REPORTABLE TRAIN ACCIDENT FREQUENCY (PER MILLION TRAIN-MILES)

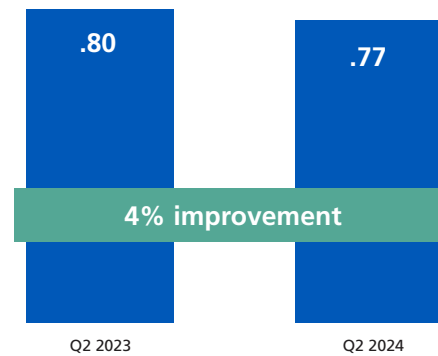
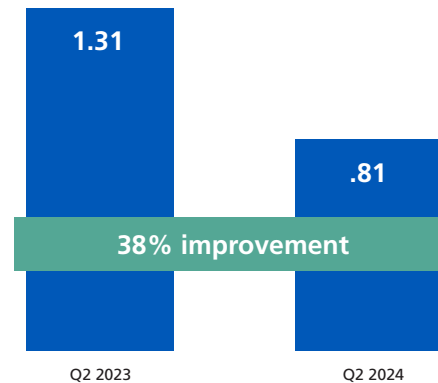


FIGURE 11: FRA PERSONAL INJURY FREQUENCY (PER 200,000 EMPLOYEE-HOURS)

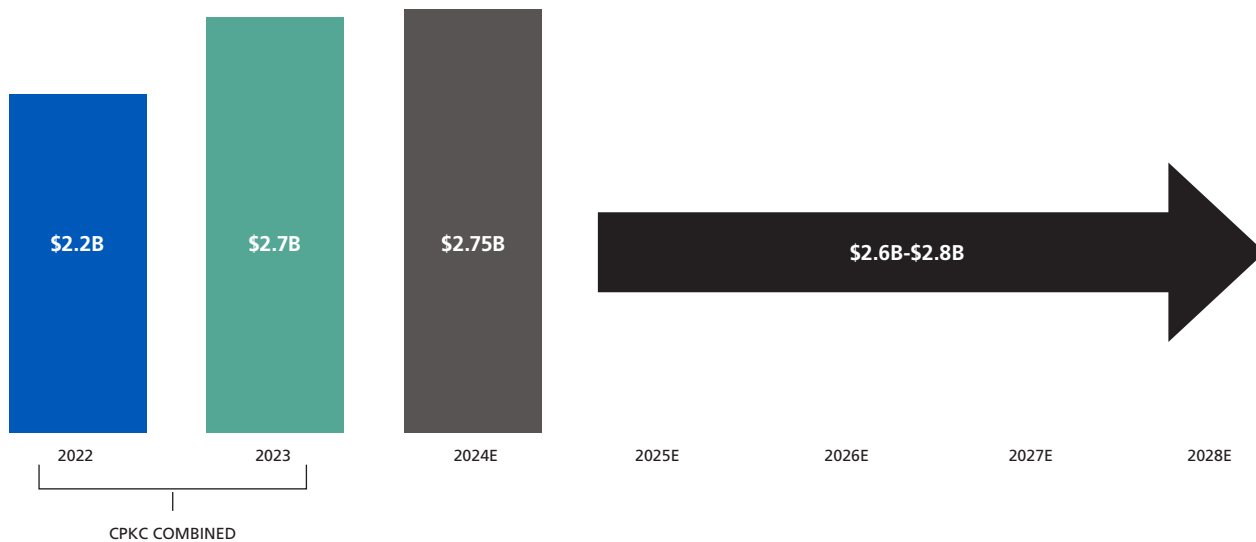




## Capital investment

CPKC invested a company all-time high of nearly \$2.7 billion in 2023 to enhance the safety, fluidity, capacity, and resiliency of the combined CPKC rail network.<sup>5</sup> CPKC is executing planned capital investments of approximately \$2.75 billion in 2024. Current guidance targets capital expenditures of approximately \$2.6 billion to \$2.8 billion per year across the combined network for the 2024–2028 period.

FIGURE 12: CPKC CAPITAL EXPENDITURES (IN BILLIONS CDN\$)



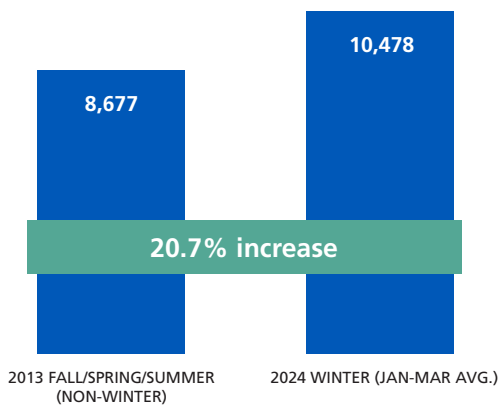
<sup>5</sup> This figure is reported on a combined basis to illustrate the total network-wide capital investment as if CP's acquisition of KCS occurred on January 1, 2023. CP and KCS officially combined on April 14, 2023.



## CPKC winter performance

CPKC’s winter operating performance has improved dramatically since 2013 when the legacy CP network adopted the PSR operating model. Improved performance is driven by increased capacity, as measured by average train length, weight, and speed – metrics that have all seen double digit increases on the legacy CP network on a percentage basis since PSR was introduced in 2013. For example, the average weight of a grain unit train in the first quarter of 2024 increased by 20.7 percent compared to the more operationally favourable non-winter quarters of 2013.

FIGURE 13: AVERAGE GRAIN TRAIN WEIGHT (LEGACY CP)

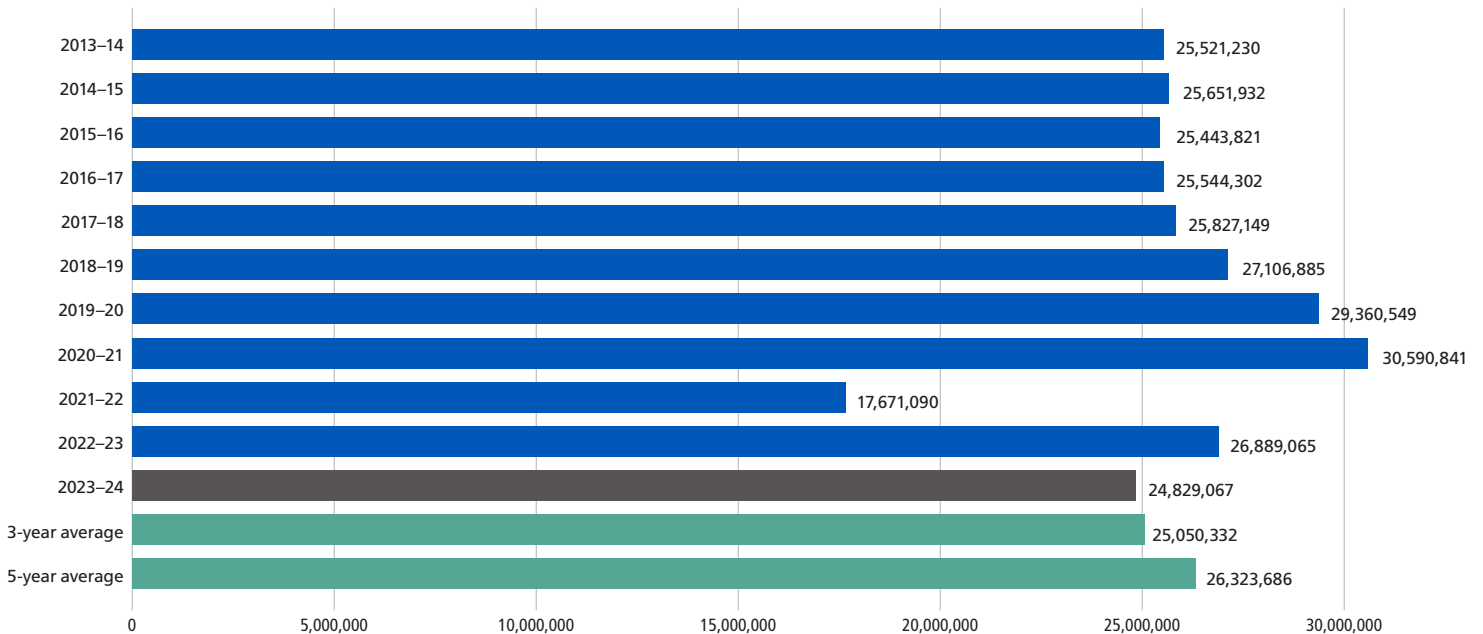


In the last decade, CPKC increased its Canadian grain transportation capacity by approximately one third. Over the duration of the 2024–2025 crop year, CPKC has the capacity prepared to transport approximately 34 MMT of grain and grain products, subject to market demand and all supply chain participants operating at maximum performance. This represents a 33 percent increase in grain transportation capacity on the CPKC Canadian rail network since the 2013–2014 crop year when CPKC transported 25.5 MMT of grain and grain products.

This significant capacity increase has benefitted CPKC’s customers across all lines of business, and it has benefitted Canadian supply chains during the winter and all other seasons. Importantly, CPKC has achieved these improvements while maintaining a cost-effective freight transportation system. In fact, Canada has among the lowest average rail freight rates anywhere in the world, and grain products are already approximately 30 percent lower than the Canadian average freight rate.<sup>6</sup>

While winter weather will always impact performance, PSR has enabled CPKC to make investments in people, processes, and technology that improve capacity and resiliency during challenging winter conditions. The capacity improvements over the past decade would not have been possible without the successful adoption and execution of PSR.

FIGURE 14: CPKC CANADIAN GRAIN AND GRAIN PRODUCTS VOLUME TRANSPORTED



<sup>6</sup> CPCS, *International Comparison of Railway Freight Rates, January 2023*. Available online at <https://www.railcan.ca/wp-content/uploads/2023/02/International-Comparison-of-Railway-Freight-Rates.pdf>.

## Impacts of winter on supply chain capacity

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Although CPKC has achieved meaningful improvements to the capacity and resiliency of its operations during challenging winter operating conditions, winter performance is fundamentally driven by physics and safety. Just like a difficult vehicle commute on roads during a tough winter day or an airplane that needs de-icing before take-off, severe weather conditions will have an impact on rail operations. This is unavoidable and, at a certain point, cannot be mitigated.

Severe winter weather conditions require adjustments to rail operations to maintain safety, which must always be the

first priority. When temperatures drop below negative 25 degrees Celsius, a train's speed, length, and weight must be reduced. These necessary operational changes unavoidably lower overall system velocity, which reduces supply chains' shipping capacity. Similarly, winter storms that cause snowfall and ice require the deployment of significant assets and resources to keep track corridors and railway terminals clear and safe. Given CPKC's network reach through the Rocky Mountains, the railway must also be vigilant to the threat posed by avalanches and prepared to respond if the rail network is impacted.

## Operational performance data reporting

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CPKC publicly reports performance data on a weekly basis, including revenue-ton-miles and carloads by line of business, average train speed, and average terminal dwell. These metrics are available at [cpkcr.com](https://www.cpkcr.com). CPKC also reports a wide

range of weekly performance data to Transport Canada and to the U.S. Surface Transportation Board. The data can be used to monitor current service conditions in the rail industry.



## Railway service performance metrics

There have been calls from some shipper lobby associations for railways to publish more service performance metrics. The desire for additional data is understandable but misguided. For data to be truly meaningful, there must be full transparency throughout the entire supply chain and all factors must be taken into account. By isolating and focusing only on railway data, the wrong conclusion may be drawn and real opportunities for improvements may be missed.

The service a railway provides is always unique for each individual customer, depending on the customer's particular transportation needs, traffic forecasts and volume commitments, and their desired rate. The customer's own management and control of their supply chain and operational performance also affects their rail service. For example, if a customer is not unloading cars at destination (such as during periods of rain or snow in Vancouver, which interrupts vessel loading, or if a terminal is not staffed 24/7), they will be constrained with car supply at origin.

The level of service that the railway plans to supply a customer will typically be negotiated commercially and defined in a confidential contract that outlines the commitments of both parties and the consequences in the event of non-performance. This is how both parties are held accountable for their commitments. In general, where a customer can provide the railway with a volume forecast or commitment, the railway is in a better position to offer a more specific service commitment because it will be able to plan the resources (i.e., operating crews, which take time to hire and train, and locomotive power) needed to provide that level of service on the network.

**The service a railway provides is always unique for each individual customer, depending on the customer's particular transportation needs, traffic forecasts and volume commitments, and their desired rate.**



## Part 4: Factors negatively impacting Canada’s supply chains

Government policy choices continue to constrain some aspects of supply chain performance. Examples include constraints on loading grain onto vessels during periods of inclement weather (which are often frequent in winter months) at the Port of Vancouver, the resurrection of extended interswitching, and labour instability.

### Loading grain in the rain in Vancouver

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Grain export facilities at the Port of Vancouver rarely load grain in periods of inclement weather. This limits Canada’s grain export capacity. The impacts of this problem regularly stretch from the Vancouver gateway all the way back to elevators and farm gates on the prairies, particularly during the winter months that tend to see the highest demand for grain transportation.

Unlike Vancouver facilities, other Canadian export terminals and U.S. Pacific Northwest (“PNW”) terminals safely load grain onto vessels during periods of rain, avoiding capacity losses. The same vessels, with the same ship captains,

load grain safely in the rain at PNW terminals, but not in Vancouver, despite similar climates and weather conditions.

This issue has been a persistent and major bottleneck in Canada’s grain supply chain for several years. Options are available to solve the problem safely. The federal government, along with the grain terminal operators, unions, and other stakeholders, must work together to finally remove this significant constraint on Canada’s grain export capacity. According to the Port of Vancouver, resolving this bottleneck could increase capacity by about 7 percent.<sup>7</sup>

### Extended interswitching

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The federal government resurrected extended interswitching for an 18-month pilot project, which commenced in September 2023. Unfortunately, but predictably, the same harmful pattern observed from 2014–2017, when this policy was in place previously, is emerging in the data under this second trial of extended interswitching: traffic is diverting to a U.S. carrier since they have a 160-kilometre (“KM”) reach into Canada to solicit traffic at a cost-based rate, while the same is not true for Canadian carriers in the U.S.

Each carload interchanged to a U.S. railway under extended interswitching means less work for Canadian railroaders, and less ability for Canadian railways to invest in capacity-enhancing infrastructure in Canada.

Extended interswitching does not create a single new competitive option for shippers since they already have regulated access to a competing carrier up to 1,200 KM away through Long-Haul Interswitching. Ultimately, extended interswitching is a policy that harms Canadian shippers, workers, and consumers. Montreal Economic Institute President Daniel Dufort calls extended interswitching a “sad spectacle of self-sabotage.”<sup>8</sup>

CPKC joins other railways, rail unions, transportation experts, think tanks, industry leaders, and others in calling on the federal government to repeal extended interswitching immediately, or certainly no later than March 2025, when it is currently scheduled to sunset.

<sup>7</sup> Standing Committee on Transport, Infrastructure and Communities, Evidence, October 25, 2023. Available online at <https://www.ourcommons.ca/DocumentViewer/en/44-1/TRAN/meeting-84/evidence>.

<sup>8</sup> Dufort, D., Ottawa’s extension of forced interswitching is no way to run the railways, available online at <https://financialpost.com/opinion/ottawa-extension-forced-interswitching-no-way-run-railways>.

## Labour instability

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A work stoppage of any duration or even the threat of a work stoppage at a major freight railway or port causes serious harm to Canada's supply chains and therefore the entire Canadian economy. North American supply chains recently experienced significant disruption due to the TCRC work stoppage on CPKC's network. This work stoppage was just the latest in a series of labour disruptions to critical supply chain functions. Prolonged strike activity at B.C. ports in July 2023 disrupted billions of dollars' worth of trade. It resulted in several weeks of lost shipping capacity and recovery time. The St. Lawrence Seaway strike in October 2023 is yet another recent example of a labour dispute causing considerable disruption for North American supply chains.

Notwithstanding the federal government's recent use of section 107 of the *Canada Labour Code* in multiple labour disputes, the Parliament of Canada should implement a specific statutory authority in the *Canada Labour Code* for the federal cabinet to rapidly impose binding arbitration and prevent or terminate a work stoppage if a negotiated agreement cannot be reached in sectors that are essential to Canada's supply chains, such as railways and ports. An embedded statutory authority explicitly designed for this purpose would allow the government to immediately impose binding arbitration and prevent or terminate a work stoppage quickly to avoid economic harm to Canadians.

The collective bargaining process would still be respected and preferred, as the best agreement is one that is negotiated between the parties. However, in the event a negotiated outcome is unachievable, the government should have the explicit and purpose-built authority to step in and protect Canada's essential supply chains from avoidable disruption and harm by compelling binding arbitration as the final resolution to a labour dispute.

The *Canada Labour Code* already recognizes the loading and movement of grain vessels as an exempted function that must continue at Canada's ports during what would otherwise be a legally permissible strike or lockout. Providing the government with the legal authority to prevent a work stoppage at a railway that transports grain to a port is consistent with the *Canada Labour Code*.

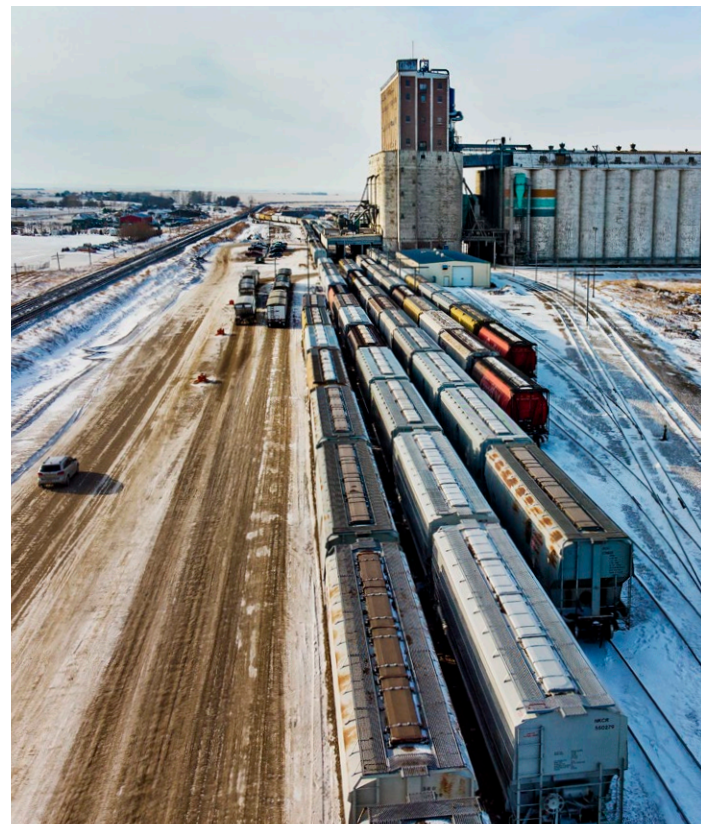
## Conclusion

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CPKC is well positioned to transport grain and other traffic during the 2024–2025 winter season on its Canadian rail network. CPKC has the processes and resources in place to effectively provide a safe and efficient freight transportation service for its customers and the broader Canadian economy through the winter and all other seasons.

The Canadian winter is harsh, presenting operational challenges for railways. As winter conditions worsen, railway performance and overall supply chain capacity are unavoidably impacted. Tough winter conditions will always force a reduction in train speed and length to maintain safety. The laws of physics mean that a railway can never be fully insulated from the effects of winter.

Every year, CPKC mobilizes significant resources to forecast and plan for winter, and then mitigate the impact to the greatest extent possible, while maintaining safety. CPKC has achieved remarkable winter operating improvements over the past decade since successfully adopting and executing the PSR operating model. CPKC looks forward to continuing to build upon these strong results for the benefit of customers and the Canadian economy.



## Forward-looking statements

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This report contains certain forward-looking information within the meaning of applicable securities laws in both the U.S. and Canada relating, among other things, to Canadian Pacific Kansas City's operations, priorities and plans, anticipated financial and operational performance, including business prospects, market drivers and outlook, planned capital expenditures, anticipated revenues and the source thereof, programs and strategies (including financing strategies). This forward-looking information also includes, but is not limited to, statements concerning expectations, beliefs, plans, goals, objectives, assumptions and statements about possible future events, conditions, and results of operations or performance. Forward-looking information may contain statements with words such as "anticipate," "believe," "expect," "plan," "financial expectations," "key assumptions," "outlook," "guidance," or similar words suggesting future outcomes. Undue reliance should not be placed on forward-looking information as actual results may differ materially from the forward-looking information. Forward-looking information is not a guarantee of future performance. By its nature, CPKC's forward-looking information involves numerous assumptions, inherent risks and uncertainties that could cause actual results to differ materially from the forward-looking information, including but not limited to the following factors: changes in business strategies; general North American and global economic, credit and business conditions; risks in agricultural production such as weather conditions and insect populations; the availability and price of energy commodities; the effects of competition and pricing pressures; industry capacity; shifts in market demand; changes in commodity prices; inflation; geopolitical instability; changes in laws, regulations and government policies, including regulation of rates; changes in taxes and tax rates; potential increases in maintenance and operating

costs; changes in fuel prices; uncertainties of investigations, proceedings or other types of claims and litigation; labour disputes; risks and liabilities arising from derailments; transportation of dangerous goods; timing of completion of capital and maintenance projects; currency and interest rate fluctuations; effects of changes in market conditions and discount rates on the financial position of pension plans, including long-term floating rate notes and investments; trade restrictions or other changes to international trade arrangements; climate change; various events that could disrupt operations, including severe weather, droughts, floods, avalanches and earthquakes, and cybersecurity attacks, as well as security threats and governmental response to them, and technological changes, and the outbreak of a pandemic or contagious disease and resulting effects on economic conditions, the demand environment for logistics requirements and energy prices, restrictions imposed by public health authorities or governments, fiscal, and monetary policy responses by governments and financial institutions, and disruptions to global supply chains. The foregoing list of factors is not exhaustive. These and other factors are detailed from time to time in reports filed by CPKC with securities regulators in Canada and the United States. Reference should be made to "Item 1A – Risk Factors" and "Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations" in CPKC's annual and quarterly reports filed on Form 10-K and 10-Q, respectively. Forward-looking information is based on current expectations, estimates, and projections and it is possible that predictions, forecasts, projections, and other forms of forward-looking information will not be achieved by CPKC. Except as required by law, CPKC undertakes no obligation to update publicly or otherwise revise any forward-looking information, whether as a result of new information, future events, or otherwise.

