



Government of Canada Hopper Car Fleet

2010 Annual Report



Prairie and Northern Region

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Purpose

This 2010 Annual Report details the Canadian National Railway (CN) and Canadian Pacific Railway (CP) use of the Government of Canada hopper car fleet. It is the third annual report produced under the 2007 Hopper Car Agreements, and covers a 12-month period starting January 1, 2010 and ending December 31, 2010. It:

- Summarizes the monthly operating reports as received from CN and CP;
- Reports on changes in the grain fleet – retirements, destroyed cars and additions;
- Summarizes the results of refurbishment and maintenance inspections; and
- Summarizes information on revenues received from the railways.

Key Commitments by the Government of Canada

When the Government of Canada signed new operating agreements for the federal grain hopper car fleet with CP and CN, effective July 1, 2007 and August 1, 2007 respectively, the Government of Canada made commitments to grain producers and taxpayers to:

- Provide hopper cars to the railways at no cost for the transportation of regulated grain;
- Continue a taxpayer benefit of \$10-15 million per year from railway payments for using the cars for purposes other than moving regulated grain;
- Monitor railways to make sure they keep the hopper cars in good operating condition throughout their service life and replace them when they are retired from service; and
- Ensure railway accountability and transparency through appropriate reporting requirements.

Background

Between 1972 and 1994, the Government bought 13,500 rail hopper cars to carry Western Canadian grain to port for export. Under the past and current operating agreements, the Government provides these hopper cars at no cost to CN and CP to transport grain for export from the Prairies to the ports of Vancouver and Prince Rupert, British Columbia, Churchill, Manitoba and Thunder Bay, Ontario. The Government receives monthly alternate-use revenues when the railways use the railcars to move non-grain commodities and for domestic North American movements. In return, the railways manage, maintain and operate the cars on a day-to-day basis, ensuring sufficient car supply to move Western Canadian grain for export to the ports listed above.

Highlights

Over the past 12 months, Transport Canada, on behalf of the Government of Canada, monitored how CN and CP maintained, refurbished and operated the federal hopper cars.

- 9,729 federal hopper cars are currently available for grain movements.
- The upgrade of existing cars, the purchase of new high-capacity cars and increased operational efficiencies have resulted in the reduction of the number of cars required to meet the transportation needs of grain shippers.
- The relatively small number of bad order cars in an aging fleet is testimony to the overall good condition of the railcars.
- The railways have met and in some cases surpassed their targets for hopper car refurbishment, resulting in fewer delays in loading and unloading the federal fleet of hopper cars.
- Total revenue collected for alternate use from CN and CP for the last 12 months ending on December 31, 2010 was \$11.298 million.
- A total of \$1.689 million in salvage value was collected from 168 steel cars. There were no aluminum cars destroyed in 2010.
- In total, over the period January 1, 2010 to December 31, 2010, \$12.99 million was collected for alternate use and salvage and deposited in the Government Consolidated Revenue Fund.
- A Refurbishment Review (the Review) has been initiated which will confirm the work completed on the steel hopper cars. At the end of 2010, all car inspections were completed and the reporting stage of the review is underway.

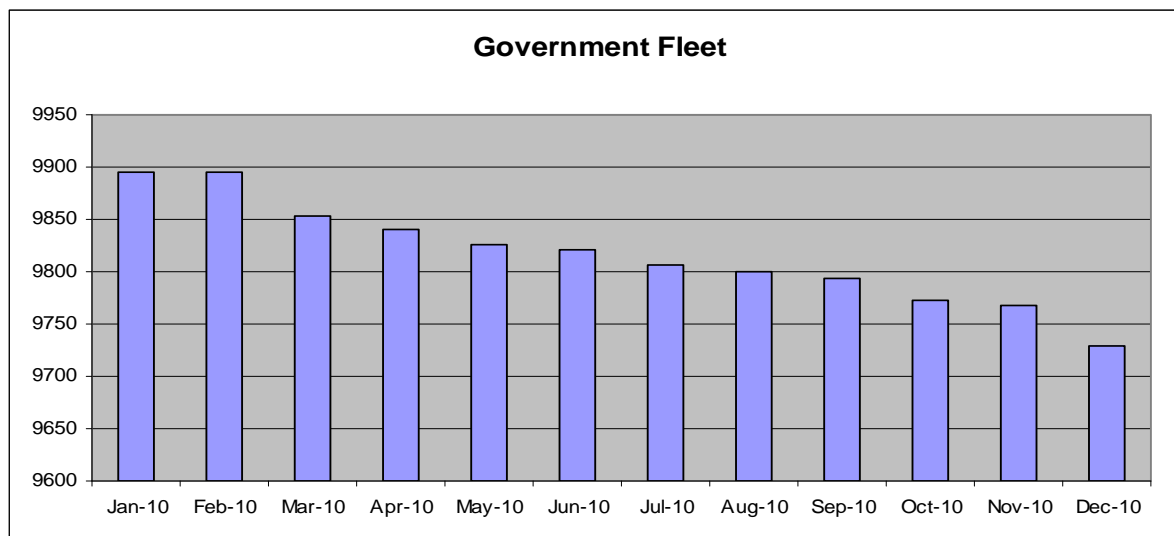
Car Use

The use of the Government hopper car fleet is measured by:

- The average number of cars in active grain service;
- The number of cars on-line and off-line;
- The number and location of cars in storage; and
- The number of bad order cars.

Size of Government Fleet

As of January 1, 2010, the Government's hopper car fleet numbered 9,897 hopper cars. During the past 12 months, 168 cars were retired. As of December 31, 2010, there were 9,729 cars in active grain service, including over 8,979 refurbished cars. (See note 1) The decline in the number of Government of Canada owned cars is as a result of the cars being destroyed in derailments. The appropriate value of the destroyed cars has been recovered by the Government of Canada.

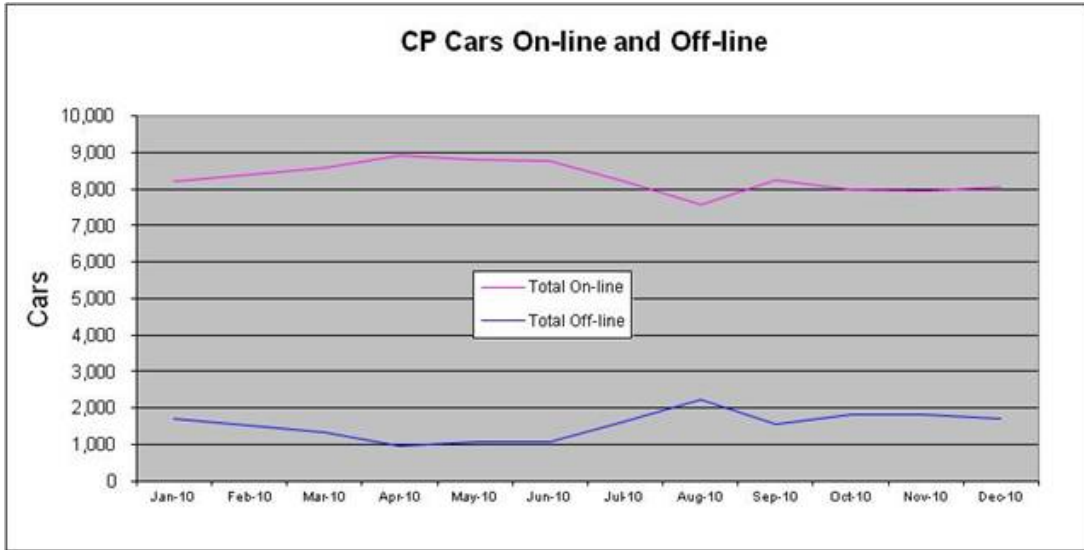


Note 1

The 2010 opening balance for the Government's Hopper Car fleet differs from the closing balance of 2009 by 14 cars. A detailed reconciliation of additional information received from the railways and the Transport Canada database regarding the number of damaged and destroyed cars has provided a more accurate accounting of hopper cars in the fleet.

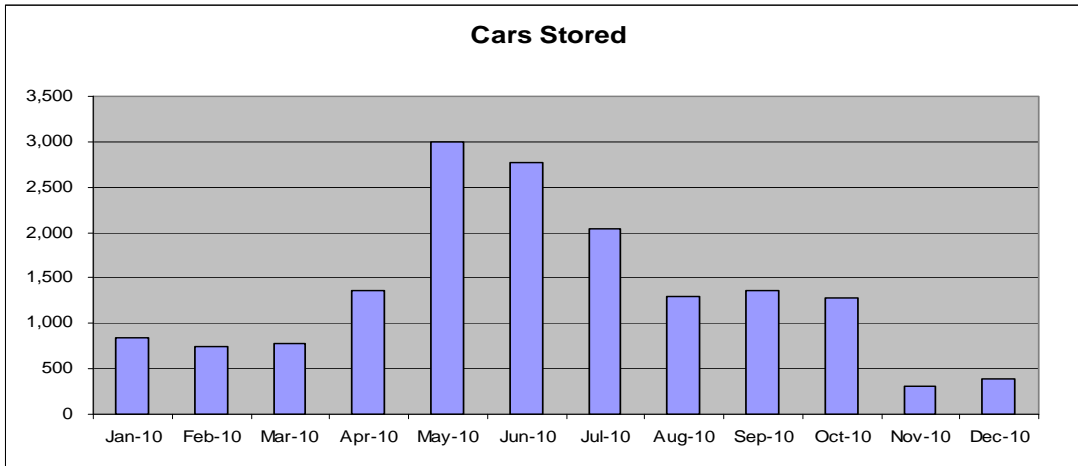
Cars On-line and Off-line

On-line cars refer to equipment that is located on CN or CP lines, while off-line refers to cars located on another carrier's lines. The more cars on-line, the more cars are available to carry western Canadian grain. The number of on-line and off-line cars was monitored and, as found in the previous year, on average, 86% of the cars were on-line. The railways met their targeted projections to ensure that capacity was maintained and a sufficient number of hopper cars were available to meet the transportation needs of producers and shippers.



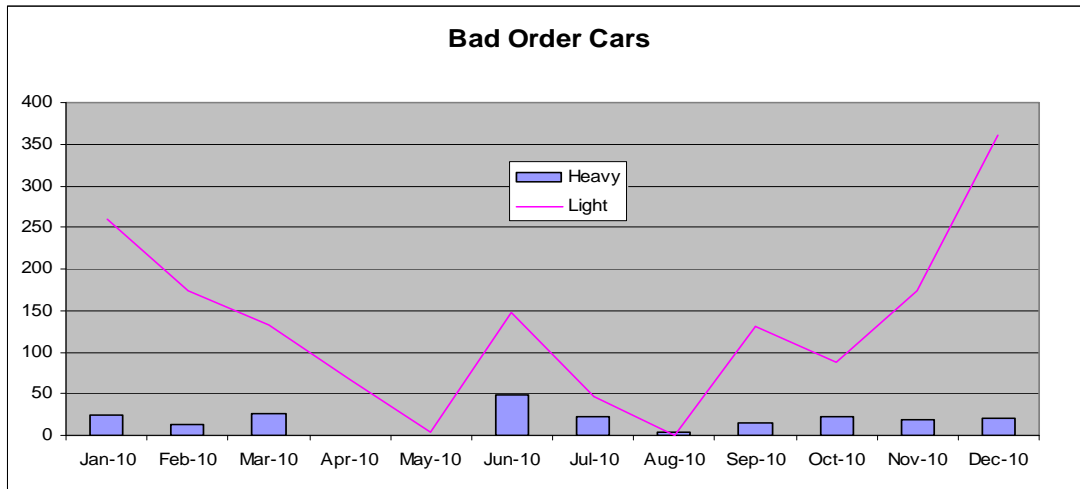
Cars in Storage

The rail capacity required by producers and shippers is directly connected to crop production and rail supply. Given the seasonal nature of grains and oilseeds, higher rail capacity is normally required during the fall and winter to move the new crop to export position. The chart below reflects the late harvest in September-October 2010, and shows the reduced number of stored cars during November and December, as the cars were used to transport the grain to market.



Bad Order Cars

Cars in heavy bad order are cars that require more than 48 hours to repair. Cars in light bad order take less than 24 hours to repair. The number of light bad order cars rose during the last quarter of 2010. This increase is within normal annual increases and was due to winter weather and the fact that more cars were in service. The year's average for cars needing more than 48 hours to repair has dropped from 0.6 per cent in 2009, to 0.2 per cent in 2010. As shown by the small number of bad order cars, CN and CP refurbishment activities helped to keep the government hopper cars in overall good condition.



Capacity and Replacement

The agreements require the railways to project their planned use of grain cars for the coming year. The railways met their planned targets, ensuring that the Western Canadian grain hopper car fleet was available to meet the transportation needs of producers/shippers. The railways maintained capacity by refurbishing cars, upgrading some of the steel cars to carry heavier loads, improving car cycle times, as well as replacing some of the retired federal government cars with railway-owned jumbo hopper cars. A Government of Canada Hopper Car has a gross weight of approximately 263,000 pounds. A railway-owned jumbo car has a gross weight of approximately 286,000 pounds. The railway-owned car can carry in the region of 23,000 pounds of additional grain.

Refurbishment and Gate Replacement

Both CN and CP have committed to refurbish and upgrade the entire post-1974 steel hopper car fleet over a five-year period at their own expense. This will ensure that the fleet remains in good operating condition throughout the service life of the cars and allow cars to carry heavier loads. Refurbishment work includes replacing:

- Trucks and small truck components;
- Side sills and end plates;
- Safety appliances;
- Gates, including toggle and glide gates;
- Hatches;
- Reflectors;
- Slack adjustors; and
- Other major components as required.

The railways have met their planned targets, with just over 8,979 cars being refurbished since the beginning of the agreements.

Transport Canada retained a contractor to inspect and evaluate the mechanical and structural condition of a randomly selected sample of Government of Canada railway hopper cars and to use the findings from the inspections to confirm the refurbishment work reported by CN and CP since 2007. The inspection phase of the evaluation has been completed. The inspection and evaluation will consist of the following elements;

- A physical inspection of a sample of the hopper cars; and
- A comparison of the findings of the inspection to the refurbishment records as provided by each of the railways since 2007.

It is expected the evaluation will be completed in 2011 and the findings will be included in the Government of Canada Hopper Car Fleet 2011 Annual Report.

Aluminum Hopper Cars

Over the 1975-1978 period, the Government bought over 2,000 aluminum hopper cars. Inspection studies indicated structural defects in the cars and raised serious safety concerns. Given the safety issues, the extent of the defects and damage to the aluminum cars, and the large cost to rehabilitate the cars, the Government decided to remove the cars from service. In 2009, the fleet's last aluminum hopper cars were scrapped and the Government received the scrap value for the car components. A final reconciliation of the aluminum cars is being completed and will be finalized in 2011.

Fleet capacity was maintained through operational improvements, the refurbishment activities carried out by CN and CP on the government-owned hopper cars and the addition of railway-owned jumbo hopper cars to the fleet.

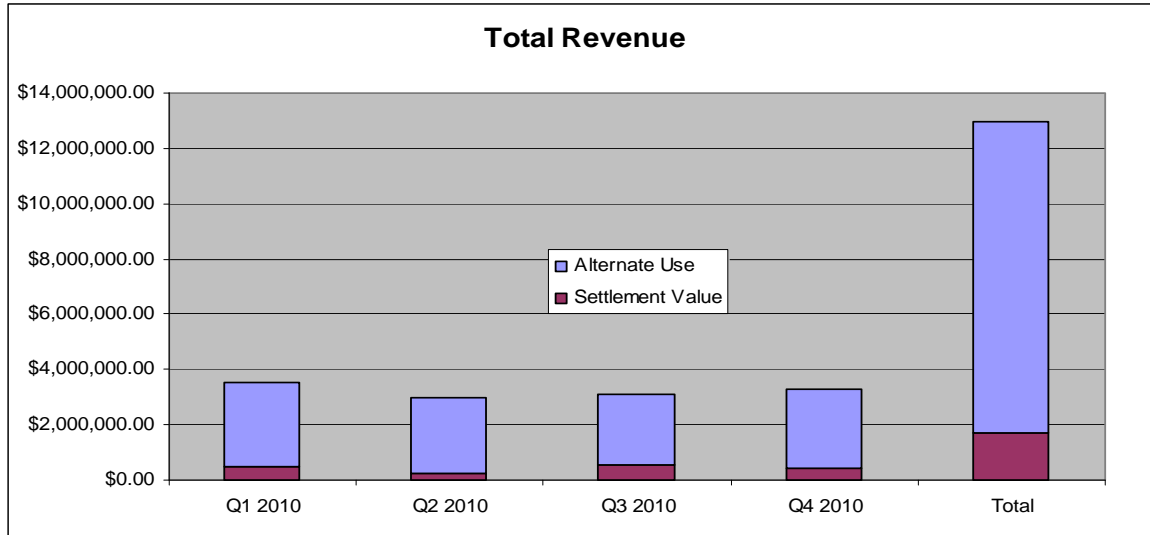
Revenues

The Government receives revenue when its cars are used for the carriage of grain and other commodities in North America, other than regulated grain movements. Additionally, monies received for the salvage value of damaged and destroyed cars are returned to the Government and submitted to the Consolidated Revenue Fund.

The average scrap value for all destroyed cars was \$10,057 for the period January 1, 2010 to December 31, 2010, an increase from an average value of \$7,150 in 2009. The reason for the increase in the average scrap value from 2009 to 2010 is that more post-1974 cars were scrapped in 2010 in comparison to 2009. Cars manufactured on or before 1974 are disposed of using the scrap steel price at the time of scrapping. Post-1974 cars are disposed of using the Association of American Railway Rules, which results in a higher value received for cars manufactured after 1974.

In 2010, \$12.99 million in revenue was received. Of this total, \$11.298 million was received for alternate use of the hopper cars and \$1.689 million in salvage value for the destroyed cars.

The total revenue received for destroyed cars was somewhat higher in 2009 since the last of the aluminum hopper cars were scrapped during that time period. The revenues received over the last 12 months are well in line with the commitment made by the Government to ensure taxpayers receive \$10-\$15 million annually from the railways for hopper cars used in alternate service.



Conclusion

Over the past 12 months, CN and CP have met their commitment to ensure there are a sufficient number of grain hopper cars in Western Canada to move grain. Cars were refurbished according to schedule, resulting in fewer bad order cars and shorter down times when the cars were unavailable for use. Also, as cars were retired, capacity was maintained through the use of railway-owned higher-capacity cars and increased operational efficiencies.

Transport Canada will continue to monitor hopper car fleet use and the condition of its cars. The most recent Refurbishment Review is an example of a planned program of evaluations that will be continued throughout the life of the Agreement. Additionally, both alternate use revenues and the condition of the cars will be evaluated periodically.

In 2010, revenues of \$11.298 million from alternate use were collected, ensuring the taxpayers benefit when the cars were used to haul commodities other than export grain. Over the same period, another \$1.689 million was collected from the salvage of cars. All revenues were deposited into the Government's Consolidated Revenue Fund.