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## Government of Canada Hopper Car Fleet 2011 Annual Report



**Prairie and Northern Region**

TP 14995E

Canada 

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the Minister of Transport, the Honourable Denis Lebel

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## **Purpose**

This 2011 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 fourth annual report produced under the 2007 Hopper Car Agreements, and covers a 12-month period starting January 1, 2011 and ending December 31, 2011. 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 revenue audits; and
- Summarizes information on revenues received from the railways.

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## **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.

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## **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.

- 9,445 federal hopper cars are currently available for grain movements.
- The upgrade of existing 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, 2011 was \$11.719 million.
- A total of \$3.01 million in salvage value was collected from 284 steel cars that had been destroyed. No aluminum cars were destroyed in 2011.
- In total, over the period January 1, 2011 to December 31, 2011, \$14.72 million was collected for alternate use and salvage value and deposited into the Government Consolidated Revenue Fund.
- An independent third-party was contracted to perform a Refurbishment Review (the Review). The results of this review showed that the railways are completing the required refurbishment of the hopper cars, thereby increasing their useful life by an additional 10 years.
- A Revenue and Car Movement Audit has been initiated and will be completed in 2012. The results of this review will assist in ensuring that the requirements of the operating agreements have been met.

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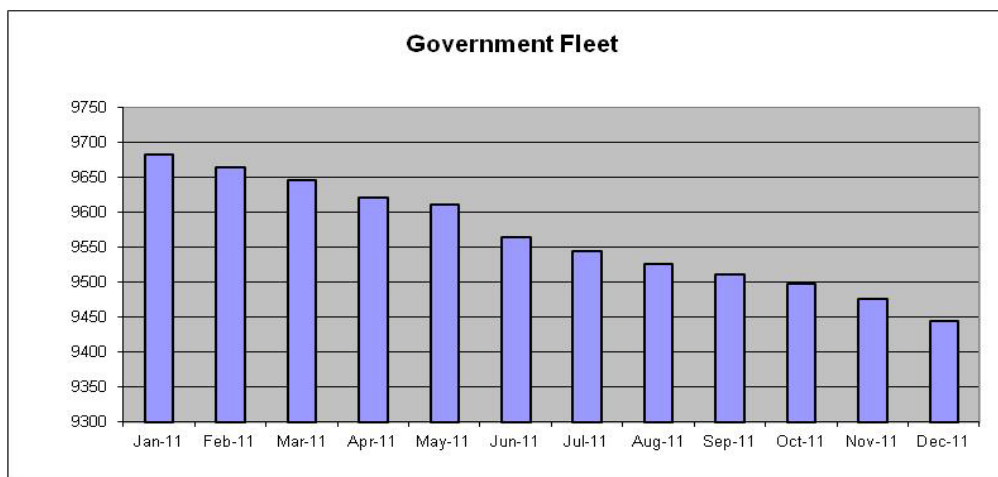
## Car Use

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.
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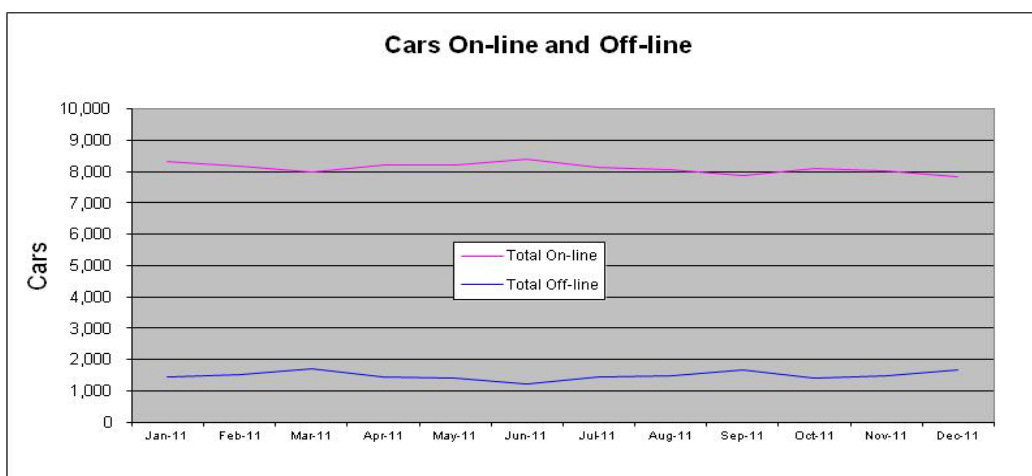
## Size of Government Fleet

As of January 1, 2011, the Government's hopper car fleet numbered 9,729 hopper cars. During the past 12 months, 284 cars were retired. As of December 31, 2011, there were 9,445 cars in active grain service. The decline in the number of Government of Canada owned cars resulted from cars being destroyed in derailments. The number of retired cars is trending up from year to year due to the pre-1974 cars reaching the end of their useful service life. The appropriate salvage value of the destroyed cars has been recovered by the Government of Canada.



## Cars On-line and Off-line

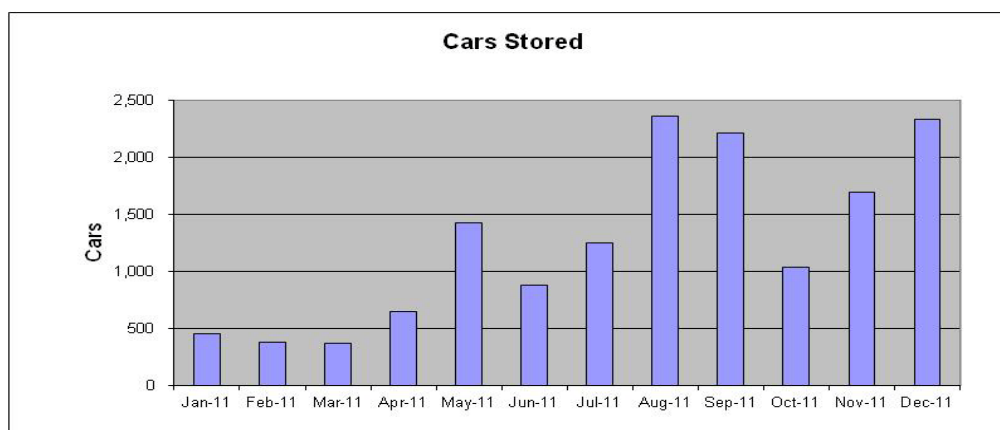
On-line cars refer to equipment that is located on CN or CP lines, while off-line refers to cars located on another carrier's lines. The more cars on-line, the more cars are available to carry western Canadian grain. On average, 85% of the cars were on-line, which is similar to the previous year's findings.





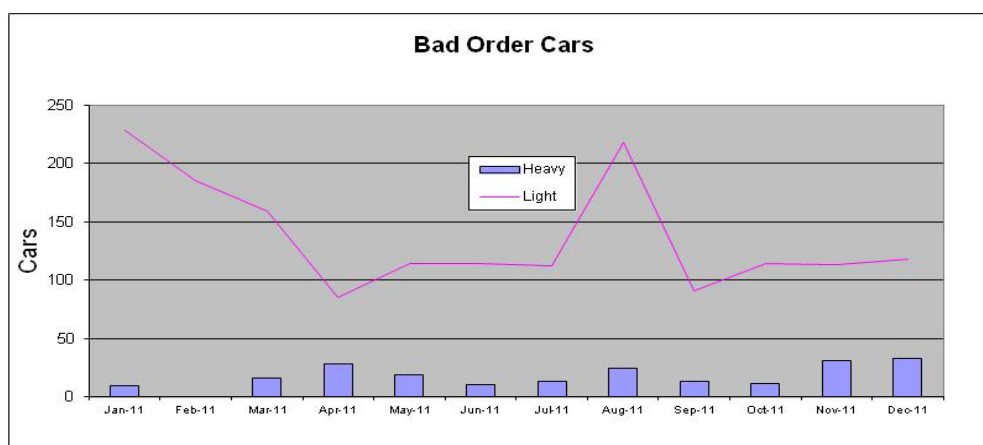
## Cars in Storage

Rail capacity, required by producers and shippers, is correlated with crop production and car supply. Given the seasonal nature of grains and oilseeds, higher rail capacity is normally required immediately following harvest, during the fall and winter to move the new crop to an export position. As a result, the railways typically bring hopper cars out of storage in peak shipping season to increase rail capacity, and return hopper cars to storage once the peak shipping season has passed. Consequently, the car storage chart below reflects a late harvest in Fall of 2010, and a smaller than expected crop in Fall of 2011.<sup>1</sup>



## Bad Order Cars

Cars in heavy bad order status are cars that require more than 48 hours to repair. Cars in light bad order status take less than 24 hours to repair. The number of light and heavy bad order status cars is within seasonal norms for both railways. The number of light bad order status cars in the fourth quarter is lower than in 2010 due to fewer hopper car movements as a result of the smaller than expected harvest. The annual average for cars needing more than 48 hours to repair has dropped from 2 per cent in 2010, to 1 per cent in 2011.



<sup>1</sup> See Canadian Wheat Board Articles: 2010 Western Canadian Growing Season in Review and Growing Season in Review 2011.

## **Capacity and Replacement**

The agreements require the railways to project their planned use of the grain car fleet for the coming year. Throughout the year, the railways fulfilled their plan, ensuring that the Western Canadian grain hopper car fleet was available in Western Canada to meet the transportation needs of 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 committed to refurbish and upgrade the entire post-1974 steel hopper car fleet over a five-year period at their own expense. This commitment will ensure that the fleet remains in good operating condition throughout the service life of the cars and allows cars to carry heavier loads. Refurbishment work included 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.

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. The contractor used the findings from the inspections to confirm the refurbishment work reported by CN and CP since 2007 had been completed. Below is a summary of the findings:

- The federal hopper car fleet operated by CN and CP is considered to be in overall good condition. To date, the total amount spent on refurbishments is estimated to be over \$40 million;
- It is estimated that an investment of approximately \$11,000-\$14,000 per car has been made by the railways; and
- The study concluded that both railways are meeting their obligations to refurbish the hopper car fleet in accordance with the current operating agreements.



## **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 remaining aluminum cars were taken out of service and destroyed. The Government of Canada received the salvage value for the car components, and the revenue was deposited into the Government Consolidated Revenue Fund. A final review of the aluminum car removal process is being completed and will be finalized in 2012.

As the aluminum cars were removed, the fleet capacity was maintained through operational improvements, the refurbishment activities carried out by CN and CP and the addition of railway-owned jumbo hopper cars.

## **Revenues**

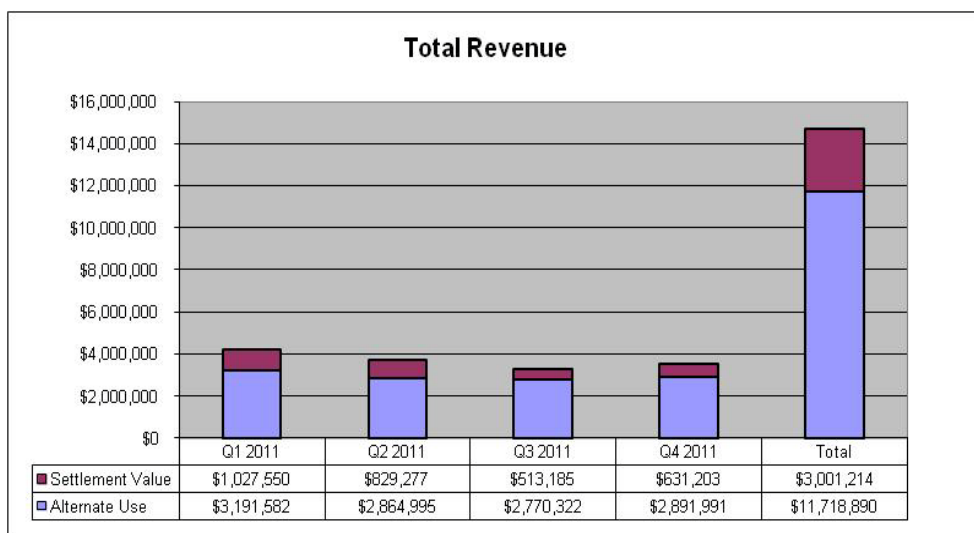
The Government receives revenue when its cars are used for the carriage of grain and other commodities in North America, other than regulated grain movements. Additionally, monies received for the salvage value of damaged and destroyed cars are returned to the Government and submitted to the Consolidated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

The average scrap value for all destroyed cars was \$10,568 for the period January 1, 2011 to December 31, 2011, an increase from an average value of \$10,057 in 2010. The reason for the increase in the average scrap value from 2010 to 2011 is that there were more higher value post-1974 cars scrapped in 2011 than 2010. Furthermore, there was an increase in the price of scrap metal in 2011. It should be noted that cars manufactured on or before 1974 are disposed of using the scrap steel price at the time of scrapping, as they are considered at the end of their useful life. 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, to account for a loss of a portion of their useful life.

In 2011, \$14.72 million in revenue was received which includes \$11.719 million for alternate use of the hopper cars and \$3.001 million for the salvage value of the destroyed cars.

In 2011, the total number of damaged and destroyed cars was 284, an increase of 116 cars over 2010. This increase is the result of pre-1974 cars nearing the end of their service life.

The revenues received over the last 12 months align 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. In addition, as cars were retired, capacity was maintained through the use of railway-owned higher-capacity cars and increased operational efficiencies.

In 2011, revenues of \$11.719 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 \$3.001 million was collected from the salvage value of cars. All revenues were deposited into the Government's Consolidated Revenue Fund.

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 the reviews that will be continued throughout the life of the Agreement.