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ALBERTA
AGRICULTURE AND FORESTRY

Office of the Minister
MLA, Whitecourt-St. Anne

July 20, 2015

Honourable David L. Emerson
Chair
CTA Review Secretariat
350 Albert Street, Suite 330
Ottawa, ON K1A 0N5

Dear Mr. Emerson:

On behalf of Premier Notley and the Government of Alberta (GOA), I would like to thank you for your leadership on the ongoing review of the *Canada Transportation Act* (CTA). Further to the GOA submission, which was sent to you December 2014, I am pleased to write to you today to provide our assessment of the government-owned grain hopper car fleet and its potential impact on rail capacity and service. Policy implications of replacing the grain hopper car fleet and Alberta's recommendations are being presented for your consideration.

As you know, the federal government purchased a fleet of 13,500 hopper cars during the period of 1972 to 1994. Due to losses from accidents and aging, the federal fleet in 2014 was estimated at 8,410 hopper cars. In 1980/81, the GOA and the Government of Saskatchewan each acquired 1,000 hopper cars. The two provincial governments now have about 900 railcars each. The CWB (formerly the Canadian Wheat Board, and now as part of the G3 Global Grain Group) bought 2,000 hopper cars in 1979/80, and also purchased 1,663 leased railcars in 2005/06. At present, the CWB has about 3,380 hopper cars.

Based on information from the Quorum Corporation and other sources, the total Canadian hopper cars used for moving grain are estimated is about 23,000 cars. The government-owned hopper cars account for 44 per cent, and the CWB fleet represents about 15 per cent. The remaining 41 per cent of hopper cars are either leased or owned by railways.

The majority of government-owned hopper cars and the CWB fleet were made in the 1970s and 1980s, and are expected to reach the end of life by 2025 to 2030. Also, more than 60 per cent of the railway-owned/leased fleet could be pulled out of service by 2025-30. Overall, about 75 per cent of the total Canadian hopper car fleet is likely to be retired during the five-year period from 2025 to 2030. New hopper car currently costs approximately $100,000 each. Replacement of the aging hopper car fleet would require a huge capital investment. The short five-year span, in which the 75 per cent of hopper cars will likely be retired, would make the task of replacement even more challenging.

.../2

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In general, government and industry stakeholders do not see a recurrence of similar investments made by federal/provincial governments 30 to 40 years ago, mainly due to fiscal constraints. The railway's sound financial performance in recent years has allowed more investment in their own railcar fleet. Also, some grain companies are establishing their own fleets. For example, Richardson International and Louis Dreyfus each have about 500 cars, mainly used for shipping canola meal into the United States markets.

Policy Implications

The replacement of aging hopper cars may have some major policy implications in the following areas:

- Calculation of Maximum Revenue Entitlement (MRE);
- Railway shipping capacity and rail service; and
- Access to hopper car supply for small grain shippers, including producer car shippers.

Although the CTA does not have specific provisions on requirements for replacement of the hopper car fleet, the ownership and leasing structure of the fleet does impact the calculation of the MRE. Railway capital expenditure affects the Volume-Related Composite Price Index, which is part of the formula used to derive the MRE.

With respect to implications to the MRE, the GOA has called for a comprehensive review of the MRE methodology as part of the initial GOA submission to the CTA Review Panel (please see the October 31, 2014, letter from Jason Krips, Deputy Minister of Alberta Agriculture and Forestry). Despite some uncertainty, the projected changes in ownership and leasing structure of the Canadian hopper car fleet will impact the MRE calculation, and should be fully considered in the MRE methodology review.

The hopper car fleet is a major component of the railway's rolling stocks and one of the key indicators for railway capacity. The adequate supply of hopper cars is crucial to ensuring the timely delivery of grains for export. The severe grain shipping backlog in 2013/14 was mainly due to an inadequate railcar supply that fell short in meeting the surge in demand stemming from record crop production in 2013.

The fleet integration program of Canadian National Railway (CN) allows shipper's cars to be managed as part of CN's railcar fleet. In return, CN can guarantee supply of a certain number of cars to the individual shipper. The program is intended to encourage shipper investment in railcars and reduce the railway's risk in capital expenditure on rolling stocks. Large grain companies may have the incentive and capital to invest in their own fleet. However, small grain shippers may not have the resources to establish their own fleet. CN's integration program may actually put small shippers at a disadvantaged position in the car allocation process. While small shippers may not account for a significant portion of total grain shipped, their business operations are directly linked to the viability of local communities and suppliers in the surrounding areas to get their goods to market. Helping small shippers secure access to car supply should be a question for discussion among all government and industry stakeholders.

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The GOA encourages all government and industry stakeholders to take a proactive approach to examining the car replacement issue and evaluating all potential options. Discussions among stakeholders should begin now to develop a strategic plan for grain hopper car replacement. The federal government should take a leadership role in coordinating effort from all industry and government stakeholders. Defining what needs to be done, clarifying responsibilities among stakeholders, and developing a plan with a clear timeline are essential to ensuring the provision of adequate railcar supply to all shippers in the long term.

Alberta's Recommendations

The CTA Review Panel should call upon the federal government to:

- Conduct a comprehensive assessment of the potential impact of hopper car replacement on the calculation of MRE, rail capacity/service, and railcar supply for small shippers; and
- Take a leadership role in developing a long-term strategic plan for hopper car replacement to ensure that network capacity meets demand.

I look forward to seeing the final report for the CTA Review and recommendations put forward by the CTA Review Panel at the end of the year.

Again, thank you for your leadership and the opportunity to provide input into the CTA review process.

Sincerely,

Oneil Carlier

Oneil Carlier
Minister

Enclosure

cc: Honourable Brian Mason, Minister of Transportation