Commercial Fleet Integration Program
Western Canada Grain – 2015

Western Canada Commercial Fleet Integration Program

CN is offering a Commercial Fleet Integration Program for grain, oilseed and special crop shippers who wish to enter agreements to supply privately owned, covered hopper cars for integration into CN's Western Canadian common fleet and to receive weekly allotments to order cars from CN's fleet for 25-car block shipments from CN-served loading locations in Western Canada to selected destinations in the US, Eastern Canada or Western Canada. Also, CN is prepared to offer a volume incentive rebates where applicable.

Participants will benefit from:

- Year-round supply from CN's common Western fleet for shipping to commercial destinations in US and Canada
- Cars incremental to general distribution from CN's common fleet
- Priority in weekly car order confirmation and train service planning processes
- Having CN manage participants' private cars within CN's common fleet

The program is intended to:

- Continue to add bigger cars into CN's Western hopper fleet, to maximize supply chain throughput
- Be compatible with CN's Open Order Book for Western Canada grain and manifest train service design for shipments to domestic destinations
- Facilitate reliable execution under CN's weekly Scheduled Grain Service plan
- Avoid system inefficiencies from free-running private cars, e.g., switching, interference at origin

General information

This program is for shipments from elevators or loading facilities at origins directly served by CN or by CN short lines in Manitoba, Saskatchewan, Alberta and BC, that load Wheat, Barley, Oats, Canola, Flaxseed, Special Crops, Corn or Soybeans for shipment in covered hoppers.

- Program is for commercial shipments from these origins moving to final destinations in the US, Eastern Canada or Western Canada for CN linehaul under rates published in tariffs CN 1759, CN 1243, CN 2140, CN 2156, CN 5586, CN 1761, CN 5659, CN 4013, or CN 4075. Shipments may be CN-direct movements or interline and Rule 11 movements over gateways compliant with CN routing protocol.
- Program is intended for consistent, year-round shipping to balance demand for railway assets and resources within CN's manifest train service design. Cars are to be ordered and shipped in 25-car lots, destination-blocked in multiples of 25-cars.
- Cars coming into the program will carry private reporting marks and will be treated as railroad-provided cars. CN will not pay any mileage or car hire on cars in the program.
- Customer will continue to be responsible for all obligations under any lease customer may have with the owner of a car, including taxes, maintenance and repairs, hatches, gates, etc.
- Freight rates that apply to railroad-provided cars under CN linehaul tariffs and asset use, car ordering, and other charges and credits that apply to railroad-provided cars under CN 9000 Optional Services - Carload will apply to cars integrated or placed under program.
- Program is not intended for unit train shipping, or for shipments to port destinations of Vancouver BC, Prince Rupert B.C. Thunder Bay Ont or Churchill MB or Mexico. Program is not available for origins served by an interswitching carrier, or for CN-served sidings made available for loading of cars that are ordered through and allocated by the Canadian Grain Commission under section 87(2) of the *Canada Grain Act*.

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Car specification: High-capacity, jumbo grain cars preferred

The modern covered hopper car best suited for hauling Western Canada grain has high cubic capacity to load more canola, barley, oats and other light density crops, and also can carry 286,000 pounds gross weight on rail over CN's strengthened mainline network. To increase the capacity of the grain logistics system, CN has been increasing the proportion of high-capacity jumbo hopper cars in the Western grain fleet. About 90% of the government hoppers operated in CN's Western fleet are 286k GWR.

CN will give first preference under the Commercial Fleet Integration Program to volume incentive bids (VIB) for integrating high-capacity, jumbo cars (>5100 cu ft, 286k GWR, maximum 60 ft length). For this car type, CN will entertain volume incentive bids from participants to enter into a mutually agreed upon multi year agreements. Volume incentive bid (VIB) is defined as an "offer" from the participant for a financial payment from CN in exchange from the participant to provide a contractual prescribed tonnage volume commitment.

If the program is not fully subscribed by volume incentive bids for high-capacity jumbo cars, CN will consider (but not necessarily accept) volume incentive bids for integrating lower capacity hopper cars.

Mechanical condition and other specifications of cars must be acceptable to CN and suitable for use within the Western Canadian common grain fleet, e.g. steel construction, gravity unload, trough hatches, standard outlets and gates. No aluminum cars will be accepted into the program.

Cars provided will conform to the requirements of regulating authorities in the US and Canada, including but not limited to the American Association of Railroads, the Federal Railway Administration, Transport Canada and the Transportation Safety Board. Bidder will provide builder's specifications for the cars, and facilitate mechanical inspection of the cars on request of CN prior to delivery to CN lines. CN reserves the right to reject from program any car based on mechanical condition or repair history, or that is otherwise deemed unsuitable for operation in the Fleet Integration Program.

Program offering & volume incentive bidding (VIB) guidelines

Customers are invited to make volume incentive bids to participate in the Commercial Fleet Integration Program.

- Volume incentive bid (VIB) is defined as an "offer" from the participant for a financial payment from CN in exchange from the participant to provide a contractual prescribed tonnage volume commitment.
- Starting May 1, 2015, customers have the option to bid cars into the Commercial Fleet Integration Program.
- VIB's will not be accepted later then 12:00 P.M. Central Daylight time on May 8, 2015.
- Successful bids will receive electronics confirmation that their bids have been accepted no later than May 15th, 2015.
- The minimum term will start August 1, 2015 and terminate as of July 31, 2016. CN is prepared to accept mutually agreed upon multi year terms.
- CN will accept up to a maximum of 1,200 private cars to be integrated into CN's fleet under the bidding process.
- You may submit VIB to the attention of "Market Manager, Commercial Fleet Integration Program" by fax: 204-934-7375 or by email: greg.keon@cn.ca.
- Participation will be awarded up to the program maximum.
- Successful bidders agree to enter into a Commercial Fleet Integration Agreement with CN.
- Successful bidders agree to deliver for acceptance by CN 100% of the cars to be integrated into CN's fleet before the delivery date indicated in the bid. Weekly car allotments will begin only when a minimum of 90% of the cars to be integrated have been delivered to and accepted by CN.
- The maximum VIB for different car specifications for participation in the program is set as follows:
  - US$525 per car per Period, for cars with gross weight on rail capacity of 286,000 lb and with cubic capacity equal to or greater than 5100 cubic foot capacity but not greater than 5300 cubic foot capacity, maximum 60 foot length.
  - US$225 per car per Period, for cars with gross weight on rail capacity of 286,000 lb and with cubic capacity equal to or greater than 4500 cubic foot capacity but less than 5100 cubic foot capacity, maximum 60 foot length.

- CN is willing to accept volume incentive bids for cars with gross weight on rail capacity of 263,000 lb and with cubic capacity equal to or greater than 4500 cubic foot capacity but less than 5100 cubic foot capacity, maximum 60 foot length**.**

Each volume incentive bid must contain the following information:

- Company name
- Total number of cars, description of the cars you are bidding to place in the program (including car markings, gross weight on rail capacity, tare weight, cubic capacity, hatch and gate design), and the builder's specifications for the cars.
- Date by which 100% of cars will be delivered to CN for fleet integration and proposed term (start and end dates for fleet integration agreement).
- Volume incentive bid fee amount in US dollars per car per Period for each car desired to be placed in the program
- Storage location for cars being integrated
- Phone and fax numbers and email address of a contact

CN reserves the right to:

- Not accept any or all valid VI bids or portions thereof
- Limit the number of cars accepted into the integrated fleet to any one party to a maximum of 25% of the total cars that CN is offering to integrate, but reserves the right to award cars above or below this level
- Reject, at any time during bidding or the term of an agreement, any car that is deemed to be unsuitable for service for reasons of mechanical condition or regulatory non-compliance.

Cars must be placed in the Commercial Fleet Integration Program for a minimum of one year term. If you need to end your participation in the program after this minimum duration but prior your committed term, the following provisions will apply:

- You must provide CN with ninety (90) days advance notice of the disposition location and date you intend that the cars be removed from the integrated fleet. The termination date can be no earlier than 75% of the original term length.
- You will not be allowed to place any orders under the program during the full Period prior to the date you intend the cars to be removed from the integrated fleet.
- You will be invoiced for C$400 per car switching fee for early cancellations, and an amount equal to:
    - the number of cars to be removed, times
    - the number of remaining Periods in the agreement, times
    - the volume incentive bid fee
- After the date that you intend the cars be removed from the integrated fleet, CN will pay you US$14 per day per car until the car is returned to you.

If you lack demand to place car orders under the program for an extended period of time but wish to remain in the program, CN may continue to use your private cars. You will be paid the VIB, less a C$100 per car order cancellation fee. If total demand falls for CN's Western fleet, and if you reduce car orders below the number of cars allotted per Period, we are not obligated to continue using your fleet of cars and may store cars at your storage facility. If you are unable to provide storage facilities, you will also be subject to car storage charges.

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Car Ordering and Supply from Integrated Fleet

Under the Commercial Fleet Integration Program, CN will distribute cars from the integrated fleet and plan train service to spot cars according to the following provisions:

- Customers will receive **1 car allotment per Period for each car** accepted and integrated into the fleet:

  Example: 100 cars accepted in program equals 100 car allotments per Period

  "Periods": defined as 4-week intervals in spring, summer and fall seasons (Grain Weeks 52 to 19, and 40 to 51) and 5-week intervals in winter season (Grain Weeks 20 to 39). Longer Periods account of longer car cycles during winter operating conditions.

- Cars allotted for a Period must be **ordered weekly and spread consistently** throughout the Period. Car orders placed in one week must be in multiples of 25 cars, placed at no more than one origin, up to that origin's car spot capacity, for shipment in 25-car lots, destination-blocked in multiples of 25-cars. If there are previous weeks CFIP finalized car orders not yet serviced, additional CFIP orders cannot be placed until the origin has been provided previous weeks CFIP cars.
- Car orders must be submitted to CN through the Grain Car Order eBusiness tool by 1:00 PM Central Time on Tuesdays, consistent with the Western Canada grain car ordering provisions in CN 9000. Grain car order request must specify origin loading facility, desired want date, destination corridor, destination, commodity, number of railcars, and reference codes to track program compliance. Eligible corridors are EC – Eastern Canada, UE – US via Eastern Gateways, UW – US via Western Gateways (in BC), and WC – Western Canada.
- **CN service targets**
  - **Finalization:** CN will target confirmation of car order request and plan service during or prior to the week of the want date or during the following week and will pay the participant a Service Plan Incentive fee of C$100 per car if the car order request is not confirmed and service planned for within that time frame. Order requests not confirmed will be waitlisted, carried forward and planned for placement in a subsequent week.
  - **Placement:** CN will target placement at origin, or at interchange for origins served by CN partner short lines, within the week of the planned service date or by Tuesday 23:59 local time of the following week and will pay the participant the Balanced Performance Incentive fee in CN 9000 item 5700 of C$100 per car for late placement if the cars are not placed within that time frame. Fee will not apply for cars placed on time and rejected for mechanical or safety reasons. Shortfalled orders (not placed during planned week) will be carried forward and re-planned for placement in subsequent week.
- If you change loading location or destination corridor after finalization, once a car order request has been confirmed and service has been planned by CN, we will do our best to accommodate your request but will not be subject to Balanced Performance Incentive for non-placement of cars if we accept your change request.
- Cars placed must be shipped to the destination corridor consistent with the confirmed car order, and with reference codes in shipment instructions to track program compliance. Misloading to a different corridor without CN consent will result in charges under CN 9000, loss of car utilization fee payments, and suspension of car allotments.
- When participants do not have sufficient demand to place car orders for the cars allotted during a Period, a fee of C**$100 per car** will apply.
- Participants without management control over an elevator or loading facility at an eligible origin (third parties) must reach agreement, independent of CN, with the party that has management control (the loader) to place car orders, and to load, ship and bill cars placed in compliance with the program.

Volume Incentive Bid payments

- Within forty-five (45) days of the end of each period during the Fleet Integration Program, CN will verify whether participant has ordered and shipped and whether CN has filled all orders placed up to the maximum car allotments that customer is entitled to receive. If it is determined that you placed your orders in a timely order and have fulfilled your commitment for the maximum car allotments, we will process payment in the amount equal to the number of cars that you have in the Fleet Integration Program multiplied by your per car bid (VIB).

  Example: 100 cars in Fleet Integration Program at US$250 per car. If all conditions have been met, we will process payment in the amount of US$25,000.

Storage

- If there is a downturn in business and cars must be stored, and if you lack demand and reduce car orders below the number of cars allotted during a Period, you may be required to provide storage facilities for the number of your private cars that are not being used in the movement of their respective allotments.
- Cars stored will be from the integrated fleet and may be a mix of both private and railway marked cars.
- Storage charges under CN 9000 will apply if you cannot provide private storage facilities.

Commercial Fleet Integration Program for Western Canada Grain - Frequently Asked Questions

Q:

Who is eligible to participate in this program?

A:

Participants must: (1) have an approved line of credit in good standing with CN; (2) be registered in CN's eBusiness electronic commerce program to receive and make payments under this program via electronic funds transfer; and (3) have management control of an elevator or grain loading facility at an eligible origin, or (if a third party) reach agreement (independent of CN) and coordinate with the party that has management control (loader), to place car orders through CN's Grain Car Order ebusiness tool and to ensure cars supplied and placed are loaded, shipped and billed in compliance with the terms of the fleet integration agreement.

Q:

What loading facilities are eligible in this program?

An elevator or grain loading facility directly served by CN or by a CN partner short line in Western Canada. Eligible loading facility must be set up for cars to be ordered through CN Grain Car Order ebusiness tool, and have sufficient car spot capacity to receive all cars ordered in one week, in multiples of 25-car lots, for placement at one time on arrival in a single switching operation. Program is not available for origins served by an interswitching carrier, or for CN-served sidings made available for loading of cars that are ordered through and allocated by the Canadian Grain Commission under section 87(2) of the *Canada Grain Act*.

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Q:

What may be shipped under the program?

A:

Wheat, Barley, Oats, Canola, Flaxseed, Special Crops, Corn or Soybeans**.** Program is intended for consistent, year-round shipping to balance demand for railway assets and resources within CN's manifest train service design. Cars are to be ordered and shipped in 25-car lots, destination-blocked in multiples of 25-cars. Not intended for unit train shipping.

Q:

To which markets will the program apply?

A:

Commercial corridors from Western Canada to destinations in the US, or Eastern Canada, or Western Canada. In Grain Car Order tool, eligible corridors are EC – Eastern Canada, UE – US via Eastern Gateways, UW – US via Western Gateways (in BC), and WC – Western Canada. Excludes Western grain movements to the ports of Vancouver B.C. Prince Rupert B.C. Thunder Bay Ont. or Churchill Mb. Also, excludes shipments to Mexico.

Q:

Will CN pay for excess mileage in private cars?

A:

Yes. In the event that the average actual mileage for all cars accepted into the program from a customer incurs excess mileage, CN will pay the excess mileage charges. You'll need to supply CN with certified documentation for both mileage and cost per mile for the excess mileage.

Q:

Will CN pay car hire on cars with railroad markings?

A:

No. CN will only accept cars with private markings into the program, and therefore, cars will not be subject to car hire.

Q:

Who is responsible for the cost of delivering cars for the program?

A:

Accepted cars will be added to the Commercial Fleet Integration Program as of the date received in Canada at or west of Thunder Bay. Any freight costs associated with delivery are your responsibility, including freight payable on CN lines to have the car positioned in Canada at or west of Thunder Bay.

Q:

Who is responsible for maintenance and repairs of private equipment in the program?

A:

Responsibility for taxes, maintenance and repairs of private equipment (including gates and hatches) in the program will remain the responsibility of the car owner or, for a leased car, the party that would otherwise bear such costs under the lease.

Q:

What if there are mechanical or contamination issues with the cars provided by CN?

A:

Customers are responsible to completely unload the car and close the gates. If cars are found with contamination, cars should be rejected. CN will investigate and take corrective actions. If the cause of contamination is a specific product, that product will be removed as an eligible product under the program.

Q:

What about quality of equipment in the program?

A:

Cars put into the program must conform to the requirements of the responsible regulatory organizations in the US and Canada, including, but not limited to, the American Association of Railroads, the Federal Railway Administration, Transport Canada and the Transportation Safety Board. Cars must be fully suitable for use and you are required to certify that the cars have not been used for the transportation of mammalian products (such as bone meal, blood meal, feather meal, etc.). Equipment that is found to be defective will be switched out and repaired. Rejection rates are monitored on a regular basis and if rejects are found to be high, actions will be taken to improve fleet quality. CN reserves the right to reject from the program any car that is deemed to be unsuitable for service for reasons of mechanical condition, including high rejection rates, or regulatory non-compliance.

Q:

What are my options if there is a downturn in business?

A:

CN may be able to use the integrated car fleet capacity. A penalty would only apply if cars cannot be used. You must also provide storage facilities for the number of cars you have placed in the program. If you are unable to provide storage facilities, you will also be subject to car storage charges.

Q:

Can I exit the program early?

A:

While the expectation is that customers will complete the full term of their agreement CN recognizes there may be factors that can cause you to seek to exit the program early. In this situation, you must provide 90 days advance notification to CN of the redelivery date, or the date when 75% of the term of the agreement has been completed. We will plan to switch out the private equipment to return to your designated disposition location before the date you intend to have the cars removed from the integrated fleet. You will be responsible for a C$400 per car switch fee, and an amount equal to the number of cars to be removed, times the number of remaining Periods in the agreement, times the Volume Incentive Bid Fee. Beyond the redelivery date, CN will pay a daily fee until such car is returned to you.

Q:

Will OT-5 Authority be required?

A:

Yes. Customers that participate in the program and add private cars into the CN Western fleet must apply for OT-5 authority and obtain prior approval from CN. The OT-5 application requires customer to designate origins and storage locations for the cars being integrated.

For further information, contact your CN Account Manager.