

## US Covered Hopper Fleet Integration Program

CN is offering our Fleet Integration Program for grain shippers who are using privately owned, covered hopper cars for their shipments. The objectives of this program are to:

- Increase operating efficiency
- Reduce unnecessary switching
- Improve transit times
- Reduce congestion in the terminals

You will benefit from:

- Guaranteed service
- Having CN manage your fleet of private cars

This program applies to specific loading locations (CCOs) in the states of Iowa, Illinois, Wisconsin, Tennessee, Mississippi and Michigan for loading corn, soybeans or wheat in covered hoppers.

- Shipments from the origins of Iowa, Illinois, Wisconsin, Tennessee, Mississippi, Minnesota and Michigan apply on both domestic and export shipments moving under rates published in tariffs [CN 4012](#), [CN 4013](#), [CN 4075](#), [CN 4050](#) and [CN 4051](#). Shipments from the origins stated above must be completely unloaded at the destinations named in the applicable tariffs and cannot be used in a Rule 11 movement beyond those destinations without the consent of CN.
- Customers have the option to bid cars into the Fleet Integration Program for a one, two or three year term.
  - 1-year program: From September 1, 2018 to August 31, 2019
  - 2-year program: From September 1, 2018 to August 31, 2020
  - 3-year program: From September 1, 2018 to August 31, 2021
- CN will allow up to a maximum of 2,000 private cars to be integrated into the fleet under a bid process during any one term. We reserve the right to refuse or reject any bid.
- The overall integrated fleet size will be based on forecasted loading volumes and anticipated cycles.
- Cars coming into the program will be treated as system cars, with no mileage paid. The shipper is required to identify CN as the lessee of the car
- Railway asset use will be applied as per [CN 9000](#) Optional Services.

### Program guidelines

- Customers are invited to make bids to participate in the Fleet Integration Program.
- Successful bidders agree to enter into a Fleet Integration Agreement with CN.
- Customers will continue to be responsible for all lease obligations (on hatches, gates, etc.).
- You may begin submitting bids on **June 4<sup>th</sup>, 2018**.
- You may submit bids to the attention of "Market Manager, Grain Products" by email: [Jared.Fallis@cn.ca](mailto:Jared.Fallis@cn.ca)
- Bids will be accepted no later than 5:00 PM Central Time on **Friday, July 20<sup>th</sup>, 2018**.
- Participation will be awarded beginning with the lowest bid up to the program maximum. Customers with successful bids will receive electronic confirmation that their bid has been accepted no later than 5:00 PM Central Time on **Friday August 3<sup>rd</sup>, 2018**.

Customers with the lowest bid will enter the program to within the program limit. The maximum bid for participation in the program is set as follows:

- 1-year program: From September 1, 2018 to August 31, 2019
  - US\$350 per car for cars with cubic capacity equal to or greater than 5100 cubic foot capacity but less than 5300 cubic foot capacity.
- 2-year program: From September 1, 2018 to August 31, 2020
  - US\$350 per car for cars with cubic capacity equal to or greater than 5100 cubic foot capacity but less than 5300 cubic foot capacity.
- 3-year program: From September 1, 2018 to August 31, 2021
  - US\$350 per car for cars with cubic capacity equal to or greater than 5100 cubic foot capacity but less than 5300 cubic foot capacity.

Bids for cars with capacity equal or greater than 4750 cubic foot and less than 5100 cubic foot will be considered on a case to case basis.

All bid payments will be processed and paid utilizing electronic funds transfer.

To be considered, each bid must contain the following information without exception:

- Company name
- Total number of cars and cubic capacity of the cars you are bidding to be placed 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 the cars will be delivered to CN for fleet integration and proposed term (start and end dates for fleet integration agreement).
- Number of years bidding to place cars into the program, i.e. one, two or three year participation
- Bid amount in dollars per car for each car desired to be placed in the program
- Phone number and email address of a contact if you are a successful bidder

CN reserves the right to:

- Not accept any or all valid bids or portions thereof
- Limit the number of cars accepted into the integrated fleet to any one party to a maximum of 35% of the total cars that CN is offering to integrate, but reserves the right to award cars above this maximum 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.
- Accept valid offers based on the lowest per car bid if the number of cars is over-subscribed

If you wish to end your participation in the program prior to your committed term, the following provisions will apply:

- You must provide CN with thirty (90) days advance notice of your desire to remove cars 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 once you have given us notice that you wish to end your participation.
- You will be invoiced for US\$475 per car for early, 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 a daily fee per car until the car is returned to you.

If you are unable to fill your guaranteed placements for an extended period of time but wish to remain in the program, CN may continue to use your private cars. You will be reimbursed the Monthly Car Utilization Fee, subject to the US\$100 per car order cancellation fee. If there is no demand, we are not obligated to continue using your fleet of cars. Customers who don't wish to participate in Fleet Integration Program will still have the ability to operate private cars on the CN open tariff rates, provided the appropriate OT5 authority is in place.

### **Performance commitment**

Under the Fleet Integration Program, CN will provide a service commitment according to the following provisions:

- Participants are required to take all appropriate actions to identify CN as the lessee of the cars, including ensuring that the industry UMLER file designates CN as the lessee of the cars. Bid payments will not be processed on cars without CN designates in the UMLER.
- Customers will receive **2.0 spots per month for each car** accepted and integrated into the fleet:

**Example:** 100 cars accepted in program equals 200 guaranteed spots per month

- Cars accepted into the program must have a minimum cubic capacity of 5,100 cubic feet and a maximum capacity of 5,300 cubic feet. Only cars that have been built on or after July 1, 1980 will be accepted into the program. Note that **no aluminum cars** will be allowed into the program.
- Monthly spot allotment must be **ordered weekly and evenly spread** throughout the month.
- You must submit orders to CN in writing by 1:00 PM Central Time on Wednesdays, providing a **minimum of seven (7) days in advance** of the want date for shipments originating in the U.S.
- CN will target placement **within ten (10) days of the want date** and pay non-performance if the cars are not placed within that time frame.
- If you change your loading location once CN has notified you that the cars have been applied, we will do our best to accommodate your request but will not guarantee that the cars will be placed on time and will not be subject to the penalty for non-placement of cars as outlined below.
- If you request that CN spot cars as a 25-car, 50-car or 100-car unit, all cars spotted in the unit must be billed to the same destination.
- The fee for non-placement of cars is **\$100 per car**. If a penalty is generated, CN will not have future obligations to provide car allocation for such order.
- When customers do not have sufficient orders to meet the guaranteed spots, a fee of **\$100 per car** will apply.

### **Monthly fleet utilization payments**

Within thirty (30) days of the end of each month during the Fleet Integration Program, CN will verify customer orders and whether CN has filled all orders placed up to the maximum spots that you are entitled to receive. If it is determined that you placed your orders in a timely order and have fulfilled your commitment for the maximum spots, we will issue you a cheque in the amount equal to the number of cars that you have in the Fleet Integration program multiplied by your per car bid.

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

## Storage

- If there is a downturn in business and cars must be stored, and you lack demand and reduce car orders below the number of cars allotted during a given month, you will 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.
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## Fleet Integration Program - Frequently Asked Questions

**Q:**

**To which markets will the program apply?**

A:

CN Domestic, export, KCS, CAGY and Canada.

**Q:**

**Will CN pay me for the excess mileage in private cars?**

A:

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 not exceeding \$0.035 USD per mile. CN defines excessive mileage as exceeding 30,000 miles in a Calendar year. You'll need to supply CN with certified documentation for both mileage and cost per mile for the excess mileage.

**Q:**

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

A:

Responsibility for maintenance of private equipment (including gates and hatches) in the program will remain with the lessor. CN will continue to be responsible for maintenance of railway equipment (including gates and hatches) that may be used by the private car shipper.

**Q:**

**What commodities will be included in the pooling arrangement?**

A:

Grain and grain products, except dried distillers grain solubles, malt, starch, sweeteners, flour, tankage and mammalian products such as bone meal, blood meal, feather meal, etc. NOTE: Any products loaded in cars under the program and found to have excessive carry back will be taken out of the program.

**Q:**

**What happens if my car lease is terminated during the program?**

A:

CN expects that customers joining the program will provide cars that do not require lease return during the program term. Any cars required to be switched out of the program are subject to a charge of \$475 per car and you have to replace the car.

**Q:**

**What if there are contamination issues with the cars provided?**

**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 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.

**Q:**

**Can I trade or sell cars placements in the program?**

**A:**

We have no objection as long as the handling is transparent to CN, with no additional workload.

**Q:**

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

**A:**

You could trade or sell your spot capacity or CN may be able to use the car capacity. A penalty would only apply if cars cannot be used and you must also provide storage facilities for the cars.

**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 \$475 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:**

**Can a private car shipper choose not to participate in this program?**

**A:**

While CN believes a private car shipper will benefit by participating in the program, we respect the right of a private car shipper to operate his fleet on CN outside of this program. Customers who don't join the Fleet Integration Program will still be able to operate private cars on CN's open tariff rates, provided appropriate OT5 authority is in place.

**Q:**

**How will private cars outside the program be handled?**

**A:**

Private car shippers can continue to operate their fleet on CN, as they do today, outside of this program and these cars will receive no different priority in handling than they do today.

**For further information, contact your CN Account Manager**