

May 8, 2019

Ms. Cynthia T. Brown
Chief, Section of Administration
Office of Proceedings
U.S. Surface Transportation Board
395 E Street, Southwest
Washington, DC 20023

Re: **Ex Parte No. 754**
Oversight Hearing on Demurrage and Accessorial Charges
Canadian Pacific's Written Testimony

Dear Ms. Brown:

Pursuant to the Board's April 8, 2019 Notice in the above referenced proceeding, Canadian Pacific¹ ("CP") submits the attached written testimony of Pam Arpin, CP's Assistant Vice President Customer & Corporate Services.

Respectfully Submitted,

/s/ David F. Rifkind

Counsel for Canadian Pacific

¹ Canadian Pacific is a trade name under which Canadian Pacific Railway Company and its United States subsidiaries, Soo Line Railroad Company, Dakota, Minnesota and Eastern Railroad Corporation, and Delaware and Hudson Railway Company, Inc. operate.

May 23, 2019 Oversight Hearing on Demurrage and Accessorial
Charges

Written Testimony of Pam Arpin, AVP, Customer & Corporate
Services, Canadian Pacific

Good Afternoon. Thank you for having me here today. My name is Pam Arpin and I am the AVP, Customer & Corporate Services at Canadian Pacific. I am responsible for Customer Service and all transactional functions at Canadian Pacific including our operational support and supplemental service processes and invoicing. Supplemental services include demurrage and accessorial charges.

My comments today will focus on the following areas:

- CP pre invoicing measures with our Customers to address customer concerns
- CP post invoicing measures with our Customers to address customer concerns
- Ongoing dialogue with customers to improve our services and tools Facts around billing and collections

CP would like to start, however, by reiterating comments by CP's CEO, Mr. Keith Creel to the STB on February 4th, 2019 regarding the demurrage system and its importance to the health of the rail network:

Effective management of railcars is important to maintain fluid operation of the national rail network, as well as the sidings and facilities of rail customers, logistics providers, ports, and customs stations. Shippers and receivers are in a unique position to coordinate rail shipments to make efficient use of railcars and

other rail assets, including track and yards. Cars that are not timely loaded, unloaded, or released congest track and yards and impact the network's ability to handle the customer's next shipment and the ability to serve other traffic.

The rail industry, and the United States Congress, have long recognized demurrage as a necessary mechanism to ensure a fluid rail network.

CP pre invoicing measures with our Customers to address customer concerns

As described in our May 1, submission in this proceeding, CP has established mechanisms in place intended to ensure that inventory and service performance including events that impact demurrage and accessorial charges are properly reflected in demurrage and accessorial invoices. These measures include:

CP's **Onboarding** team is available to new customers to provide onboarding services. This includes familiarizing customers with how CP tariffs are applied and with the tools available to the customer within the CP Portal.

CP's **Local Operating Planning** team develops local operating plans based on customer spot and lift requests. After CP has provided the planned service, CP audits and reports internally the actual performance against the initial customer requests to confirm the level of success delivering to customer requirements. These reports are produced daily and viewed by all levels of CP's operating team, including senior leadership. Our Demurrage team uses this information to monitor for exceptions and adjust demurrage records as necessary prior to invoicing.

CP's **Customer Station "Log an Issue"** functionality allows shippers, receivers, and third parties the ability to flag

concerns in real time as they relate to inventory reporting, transit and local service. In addition, within Customer Station (accessed through CP's Portal), CP provides customers with visibility to demurrage days accruing for each car. Concerns reported by customers are addressed by CP's Customer Service team and reviewed by Demurrage staff when compiling month-end statements.

CP's **Pro-forma (aka 'Pre-Invoice) Process** was established to provide parties receiving a demurrage statement a channel to submit consolidated feedback prior to formal invoice issuance. At the end of a month, a dedicated CP representative issues a pro-forma statement to a customer in order to provide an opportunity to either (a) dispute aspects within the statement, (b) request further details, or (c) approve the statement. The goal of the process is to attain agreement on the final amount to be invoiced while working collaboratively on mitigation of demurrage and accessorial charges going forward.

CP post invoicing measures with our Customers to address customer concerns

Once invoiced, customers may log disputes and raise concerns through the following channels:

Disputes may be logged within CP's **Customer Station** using the **Manage Invoice** tool. CP commits to responding within fifteen (15) business days. If CP does not timely respond, CP accepts the dispute as written.

Concerns may be raised with a CP **Inventory Control** Specialist who will work with customers and CP Operations in an effort to mitigate systemic events that are leading, or could lead to, demurrage and/or accessorial charges.

Concerns regarding rates, terms of service, as well as accessorial/demurrage invoicing may also be raised through a customer's relationship with their CP **Account Manager**. In such instances, the Account Manager will help to facilitate resolution through the appropriate parties within CP.

Ongoing dialogue with customers and stakeholders to improve our services and tools

We continue to evolve our services and technology through direct dialogue with our customers. The following are examples of CP's efforts to maintain lines of communication with our customers to improve customer experience:

The Customer Advisory Council is an initiative started in early 2018 to pull various customers together from all lines of business to discuss Fluidity, Technology and Communication. As part of the Customer Advisory Council, CP engages in touchpoints throughout the year with specific customer focus groups on key areas to develop a multi-year roadmap for Customer Experience.

Using a third party, CP conducts Annual Customer Surveys across our customer base in order to measure customer satisfaction on various elements of our service. We also issue two surveys each year on our Customer Portal where customers can provide feedback and identify opportunities for improvement.

CP engages with customers at industry events. This includes, when requested, participating in discussions with shipper organizations on accessorial and demurrage charges.

CP's senior management participates in monthly meetings with the STB to share real-time key performance information, supported by operating and performance data, and to answer

any other questions or concerns brought forward by customers to the STB.

Of note, while we have received individual feedback on specific customer concerns on invoices, we have received very little feedback on our overall accessorial and demurrage program, which has been largely unchanged since 2015.

Facts around billing and collections

Demurrage and accessorial charge revenue does not drive CP's financial performance. These revenues represent less than 3% of our operating revenue in the United States and just over 0.5% of operating revenue for CP as a whole.

While absolute dollars of billings increased in 2018, the increase is not disproportionate when looked at as a percentage against the total amount of revenue increase over this period.

Furthermore, when you look at CP's demurrage in isolation, while our total revenue has increased by approximately \$280M from 2016 to 2018, our demurrage charges have dropped as a percentage of total revenue as well as absolute dollars.

CP's collection rate when comparing billed vs collected on a yearly basis has averaged around 90% in 2016/2017. Our collection rate increased to approximately 94% in 2018.

CP's percentage of adjusted bills has actually decreased over the 3-year period as well. We believe that the increase in collection rate and decrease in adjusted bills is a reflection of improvements CP has made in our processes, in communicating with customers, and in technology. These improvements, supported by our people, ensure we are providing accurate invoices to our customers. We know we are

not 100% perfect and therefore, as discussed earlier, CP offers further opportunities post invoice for our customers to raise concerns.

It is CP's perspective that, for the vast majority of what CP issues for charges, shippers and receivers are paying charges that they deem appropriate.

This is in part due to our robust processes for addressing demurrage and accessorial concerns and in part due to the benefits of CP's maturing Precision Scheduled Railroading operations. Our customers have by and large adapted to PSR. Under PSR, our customers enjoy more reliable and predictable service which, in turn, makes it easier for customers to avoid demurrage and unnecessary accessorial charges.

It is important to note that CP's accessorial and demurrage charges include charges for optional services and products that provide value to our customers. These services and products include, for example, container storage. Container storage accounted for 29% of CP's demurrage revenue in the 1st Quarter of 2019. Accordingly, CP cautions against drawing negative conclusions from increases in demurrage and accessorial revenues as they may simply be a reflection of the carrier offering a value add service at a competitive price.

Additionally, it is important to note that CP's demurrage rates do not go in one direction only. Congress requires that rail carriers charge demurrage in order to ensure adequate car supply. When demand is high and car supply is tight, CP may increase demurrage rates in order to encourage more efficient use of equipment. Conversely, when demand for cars is low and supply is adequate, CP may reduce demurrage rates as reflected in the data that CP provided to the Board on May 1.

In closing, CP believes that its practices around demurrage and accessorial charges are balanced and reasonable. We

proactively deal with issues where we can, and we provide appropriate channels for escalation of issues after invoice. Furthermore, CP has not had any substantial changes to our policies during the period in question.

It is the responsibility of all parties in the supply chain to ensure a fluid network. A fluid network ensures customers can receive consistent and reliable service that they depend on. Demurrage is a critical tool to ensuring that all parties in the supply chain behave responsibly.

As demand for rail service increases, CP is investing in its network to meet the challenge. However, it is prudent and incumbent on CP to make the most out of its existing assets. In significant part, CP's relentless focus on making more efficient use of our existing assets enabled CP to move 219,000 more carloads in 2018 than we did in 2016, a 9% increase. Thus, through our efforts we ensured that 215,000 more carloads of various commodities were available to fuel the economy. This increase was made possible through our operational excellence in precision railroading and by ensuring we have appropriate policies in place that incent behaviour around asset use. We are proud of the work of our over 13,000 employees to accomplish this.

I would be pleased to take any questions you may have.