



Jim Young
Chairman

August 28, 2008

The Honorable Charles D. Nottingham
Chairman, Surface Transportation Board
395 E Street, SW, Suite 1220
Washington, DC 20423-0001

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SURFACE TRANSPORTATION BOARD
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OFFICE OF CHAIRMAN
NOTTINGHAM

Dear Chairman Nottingham:

This is Union Pacific Railroad's response to your letter of July 25, 2008, asking about our service plans for the remainder of this year and our capacity needs.

With third quarter carload volume running about 1.2 percent below last year, near-record operating efficiency, and only a modest "peak season" on the horizon, Union Pacific should have no difficulty meeting customer demand this fall and beyond. We have sufficient capacity, including tracks, personnel and equipment, to meet projected demand. In fact, with our improved network fluidity, we could accommodate an unexpected surge in traffic, if one occurs.

As we have said in prior years, Union Pacific is investing in the railroad and in new capacity at a record pace so that our customers can grow their businesses. We are on target to invest \$3.1 billion of capital this year, and although we are still evaluating the demand environment, we currently expect to invest something close to that amount again in 2009. As we have said repeatedly, however, our ability to earn adequate financial returns on investments remains the determining factor in all of our investment decisions. Returns on investment will dictate the capacity of this railroad.

Union Pacific responds to your specific questions as follows:

"To the extent your railroad has been affected by the recent flooding in the Midwest, efforts your railroad has undertaken to restore damaged infrastructure and restore service."

With only one exception, we quickly restored all damaged infrastructure and resumed normal service throughout the Midwest after the spring floods. We did so rapidly because we have honed our ability to respond quickly — with both service and repairs — to weather and other disruptions, and because we were able to protect our key bridge over the Cedar River near Cedar Rapids, Iowa. The one exception is a collapsed secondary bridge over the Cedar River in Waterloo, Iowa, which a short-line railroad shares. Within a few days, however, we were

able to restore alternative service to all affected customers who were open for business. The bridge should be rebuilt after permits are secured.

“The steps your railroad is taking to ascertain demand for and prepare for this year’s peak shipping season, with an emphasis on the commodity areas of agriculture (grain, grain products, and ethanol), coal, chemicals, and intermodal.”

As in prior years, we consult with our customers, review business sector expertise and data sources, meet with mines and ports, and study economic projections to assess shipping needs during the fall season. Based on the information we have reviewed — and considering our current surge capacity in all key resources — we foresee no difficulty in providing quality service during peak season.

Union Pacific is well positioned to meet the demand for coal. Demand for western coal is expected to remain strong through the remainder of the year, and we are prepared to meet our customers’ requirements. We understand that most, if not all, western bituminous mines are selling every ton of coal they can produce. With more challenging geology confronting all underground mining companies, as well as new safety regulations recently passed by Congress, coal production problems could disrupt deliveries. Additionally, as our coal train velocity continues to increase, we have experienced an increase in unloading delays at terminals and some Midwestern utilities. We are working with our customers and the terminals to address these issues, since an effective coal supply chain is very dependent on the ability to unload coal.

“A projection, by month, of your railroad’s overall performance goals in the areas of cars-on-line, terminal dwell, train speed, and expected trainmen and engineer employment levels (L600) from September through December of this year.”

UP’s service metrics have improved substantially in 2008, and we project continued gains. We are at or beyond goals in all four categories. In any event, metrics such as on-line inventory and employment levels are directly correlated to carload demand, with some offset for our productivity gains. We already have, and expect to maintain, adequate staffing levels to handle the traffic demands.

“Your railroad’s plans for achieving those goals.”

Our current performance and resources levels will allow us not only to maintain service but also pursue continuous improvements.

“Your railroad’s plans to communicate the above to customers.”

We will post this letter on our website. More importantly, we provide regular communications regarding service to our customers, both directly and through the customer section of our website.

“Your railroad’s capital plans for increasing capacity in 2009.”

In addition to investing about \$2 billion to maintain the railroad, replace existing infrastructure, and ensure safety, we tentatively expect to invest approximately \$1 billion in new capacity in 2009, assuming returns on each investment look promising. We are in the planning cycle now and have not made specific decisions about which projects to fund.

“Your railroad’s critical capacity-related infrastructure needs.”

With recent improvements to our railroad and our operating efficiency, we face few “critical” infrastructure needs. We invest, however, for the long term, as we expect long-term demand to press against supply. The most important infrastructure needs include:

- Third main track on the UP coal line at Myles Hill in Wyoming
- Fourth main track on the BNSF-UP Joint Line in Wyoming (first segment should be complete by October 2008)
- Additional capacity for coal trains in Southern Illinois (to be useful, this capacity must be coordinated with increased unloading capability at river terminals and unloading facilities)
- Remove bottlenecks between Jefferson City and St. Louis (permitting for one bridge has been severely delayed by local concerns, despite benefits to Amtrak service)
- Additional capacity on the Sunset Route between Tucson and Southern California
- Remove bottlenecks and improve operations at the Chicago and St. Louis gateways (requires coordination with Metra and with interchange partners, and funding of the CREATE project in Chicago)
- Finish Centralized Traffic Control in eastern Nebraska; further additions to the Central Corridor in Iowa
- Additional capacity between Kansas City and Ft. Worth, including at Tower 55 in Ft. Worth
- Reduce congestion in El Paso by relocating activities to a new facility in New Mexico
- Rail overpass at Colton Crossing with BNSF at Colton, California (awaiting state and local action)
- Remove tunnel clearance limitations on Donner Summit
- Add second main track between Fremont and Blair in Nebraska to eliminate mileage via Omaha
- Remove spot bottlenecks at various locations
- Extend several sidings to expand distributed-power operations
- Improve terminal infrastructure

“Your railroad’s plans for addressing those critical capacity-enhancing infrastructure needs and your expectation for timely completion of those improvements.”

We tentatively expect to make progress on each of these items by the end of 2009, maintaining our ability to respond to demand. Several of these items are multi-year projects;

completion dates will depend on demand, weather, and other needs that may emerge. Completion dates will also be affected by local opposition and permitting delays, which are increasingly impairing rail system capacity and project costs.

Our company has made record investments in new capacity during the past several years based on the belief that the financial returns would justify that spending. We hope to continue to invest at a level that our customers need and that investors support. That support rests solely on the financial returns on investment. The Board's policies, and Congressional actions, are therefore critical influences on investment and on the capacity of this railroad.

Sincerely,

A handwritten signature in black ink that reads "Jim Young". The signature is written in a cursive, flowing style.

cc: The Honorable Francis P. Mulvey
The Honorable W. Douglas Buttrey