UNION PACIFIC CORPORATION
1400 Douglas Street, 19th Floor
Omaha, Nebraska 68179

P 402 544 6400
F 402 501 2120
jackkoraleski@up.com

Jack Koraleski President and CEO

August 23, 2013

The Honorable Daniel R. Elliott, III
Surface Transportation Board
395 E Street, S.W.
Washington, DC 20423-0001

Dear Chairman Elliott:

On August 1, 2013, you requested Union Pacific's plans and expectations regarding demand for rail transportation during the remainder of 2013. To summarize, Union Pacific believes it is prepared to handle increased rail traffic during the peak rail season, including higher volumes from any economic improvement during the second half of the year. Our network is strong, fluid, and capable of handling volume growth at safe, efficient, and reliable service levels.

"Expectations for any seasonal peaks in carload and both domestic and international intermodal traffic."

Although rail demand during peak season depends on the economy, Union Pacific is prepared to accommodate increased traffic volumes and peaks that may occur. Indeed, the recent increase in weekly carloadings did not affect our operations, as system velocity remained fluid. We do not expect a seasonal peak in crude oil, lumber, sand, and metals, but we do expect growth in those commodities for the full year. Lower grain production due to last summer's drought impacted our grain volumes during the first half of 2013, but we hope to see grain carloadings strengthen in the latter part of the year given the positive forecasts for crop production this fall and stronger export demand to China and Mexico. With respect to domestic and international intermodal traffic, we expect a positive but somewhat muted peak season as a result of the current slow pace of economic growth.

"Resources to meet any upticks in volume, including a discussion of freight car, locomotive, and labor (train crew) availability."

Union Pacific is better prepared than ever to respond to upticks in volume. We have spent an average of 17% of our revenue over the last five years in renewing, improving, and expanding our railroad through capital investments – even though the economy has not improved to the degree we hoped. This year alone, we are purchasing 100 locomotives and 900 freight cars, as well as domestic containers to replace units currently on lease or being retired, and we have received or will receive the majority of those acquisitions by the end of August. Furthermore, we have a number of freight cars and locomotives in storage that are available for surge capacity.

We are on track to hire additional train service employees in 2013, many to replace current attrition levels, and more than 40% of those employees will be placed in our Southern Region. Normal fluctuations in supply and demand result in some employees being furloughed at various locations on our system at any point in time. We currently have approximately 350 train service employees in furlough status. Of these, roughly 75% are covered under our alternative work and training program. Under this unique program, covered furloughed employees work at least eight days a month with full benefits and can resume full-time employment on short notice.

Union Pacific will invest more than $600 million expanding line, terminal, and commercial facility capacity throughout our system this year. In particular, Union Pacific will spend roughly $240 million in 2013 expanding capacity in our Southern Region as traffic volumes across business groups are at or near pre-recession levels in the South. As a result of this substantial capacity investment – a four-fold increase since 2010 – Union Pacific is meeting demand growth in the South at solid performance levels.

"The overall actions your railroad will take to prepare for the end-of-year shipping season, with specific references to critical commodity areas such as: agriculture (grain, grain products, and ethanol), coal, chemicals and intermodal."

Union Pacific's preparations for the end-of-year shipping season are largely the same as our preparations throughout the year: build strong relationships with our customers, create innovative service products to meet our customers' needs, and make strategic investments.

Agricultural Products. We have a sufficient supply of freight cars for our agricultural customers, including a number of cars in storage that can be restored to active service if needed. Furthermore, Union Pacific is providing excellent service for our ethanol customers by aligning resources with customer forecasts and managing traffic flows to maximize asset utilization.

Coal. To anticipate changes in the demand for coal transportation, Union Pacific monitors our customers' inventory levels and contacts them on a monthly basis to assess their near-term demand requirements for coal. Based on this assessment, we work with our customers to move their train sets into or out of storage so that we can handle their tonnage requirements.

Chemicals. We have devoted significant resources and capital to our Southern Region – efforts that greatly benefit our chemicals customers. For example, our capital spending in the Southern Region has reduced slow order miles by more than 50% from this time last year. Consequently, our train speeds (as defined by the AAR) in the South have increased more than 5%, improving transit times and service delivery.

Intermodal. Union Pacific is well-positioned to provide the resources and equipment to handle increased intermodal volumes throughout the remainder of the year, including running extra intermodal trains if demand warrants.

"Specific plans to support demands for prompt movement of finished autos and light trucks."

As we explained in last year's letter, Union Pacific designed a new multilevel auto car that can convert from a bi-level configuration to a tri-level configuration – thus providing our customers greater flexibility to ship their product on a timely basis. We added a number of these convertible AutoFlex cars to the national multilevel pool in 2012, and we will contribute additional AutoFlex cars this year.

"Specific plans to support growth in demand for movement of crude oil and drilling related products, while maintaining satisfactory service levels to other customers in affected areas."

The demand for crude oil and drilling related products covers the eastern third of Union Pacific's rail network from the Upper Midwest through gateways in Missouri and Illinois to destinations in Texas and Louisiana. We are investing roughly half of this year's capital for capacity and commercial facilities in this portion of our network to meet growing demand. These investments, however, do not solely benefit crude oil, frac sand, and pipe customers. Rather, these investments benefit all customers – across all business groups – who ship to, from, or through the eastern third of our network.

For example, we added and extended sidings, upgraded signals, renewed track, and double-tracked some portions of our primary crude oil routes, all of which increase capacity and velocity for all traffic utilizing those routes. We are also improving the East St. Louis terminal by adding capacity to interchange crude oil and other traffic with other carriers. We upgraded and expanded facilities in key origin and destination areas, including the Upper Midwest, Western Texas, Southern Texas, and Louisiana. We also expanded service frequency in many of these areas to achieve maximum throughput and to better serve our customers.

"A summary of the investments made in freight service and capacity improvements for the past year, as well as areas of existing or anticipated rail traffic congestion (including border crossings and major east-west interchanges) and your plans for remediation."

Union Pacific is on pace to spend $3.6 billion on capital investments in 2013. Of that $3.6 billion, we project that we will spend approximately:

- $2.175 billion for infrastructure replacement – including 900 miles of rail and 3.9 million ties;
- $975 million for growth and productivity with an emphasis on capacity, commercial facilities, and equipment; and
- $450 million for Positive Train Control.

A number of our capital investments this year will aid traffic flowing to or from Mexico. The San Antonio terminal supports a large portion of Union Pacific's international traffic, and we are completing capacity improvements to the terminal area and advancing additional capacity projects, all of which will increase velocity and performance for all traffic utilizing those facilities. We are also adding capacity and upgrading the route to Eagle Pass, as well as renewing track and upgrading the route to Laredo. Union Pacific also has participated in a continuous improvement project with other railroads and U.S. Customs to evaluate throughput at Laredo. Finally, Union Pacific is one participant in a multi-railroad effort to improve throughput in the New Orleans east-west gateway through process improvements and targeted capital investments.

Based on all of the foregoing, we believe we are prepared to handle projected – and even unexpected – demand for rail transportation during the peak season and throughout the remainder of 2013.

Sincerely,

Jack Koraleski

Jack Koraleski
President and Chief Executive Officer
Union Pacific Corporation
Union Pacific Railroad Company

cc: The Honorable Ann D. Begeman, Vice Chairman
The Honorable Francis P. Mulvey, Commissioner