



BUILDING AMERICA®

STB Hearing on EP 775 – Growth in the Freight Rail Industry

September 16, 2024

Testimony of Kenny Rocker

Union Pacific Railroad Company

Good morning, Chairman Primus, Vice Chairman Hedlund, Board Member Fuchs, Board Member Schultz, and Board Staff.

On behalf of Union Pacific, thank you for the opportunity to speak to you about our growth strategy and our Company's innovation to achieve growth – today, I'm focusing on how Union Pacific thinks about this growth strategy.

And there are three things I want to hit hard:

- First, delivering the service we sold to our customers,
- Second, investing in our network, and
- Third, innovating with technology and new product offerings to meet the needs of our customers.

First, let me make it clear – Union Pacific has been growing. Since 2010, our volume has grown over 500,000 carloads, if you exclude coal. We've seen growth across several markets, which are also very competitive with trucks. In our agricultural business segment, biofuels have grown 65% and beverages have increased 62%. For the industrial markets, we've seen a 68% growth in plastics and a 42% growth in industrial chemicals. And in our auto parts business, it's increased by 47%.

We're not immune to the external factors that impact the markets we serve – but we find ways to adapt. In 2010, Union Pacific launched over 30 coal trains per day out of Wyoming – each with over 100 cars. Today, that number averages closer to 10 trains per day – which translates to about 20,000 fewer cars per week due to increased fuel competition with natural gas and public policies that have reduced coal-fired utilities.

But our team has hustled to recover from the backdrop of coal and done a fabulous job to fill that void.

The beauty of our franchise lies in the diversity of our business mix which gives us strength by providing stability during the ebbs and flows of the economy. Some examples of growth markets include domestic intermodal, automotive, petrochemicals and construction. Our unmatched network allows us to capitalize on these growing markets and protects us when other markets struggle.

Next, let me briefly outline Union Pacific's strategy for long-term growth. The team is all-in when it comes to Safety, Service and Operational Excellence. Safety is at the forefront – with the goal of becoming the best in the industry. We strive to deliver the service that we sold to our customers. And our focus on operational excellence ensures that we are using resources efficiently and wisely. In addition, we maintain a buffer, a buffer of both people and equipment, so we are ready for unforeseen weather events or surges in demand. In fact, quarter to date, our carloads are up double digits year-over-year for grain, petroleum, and renewable fuels. And despite expecting

international intermodal volumes to be down this year because of a contract loss, we've seen the market grow double digits and we've been able to capture all that volume.

My Commercial team has a passion for growth in all markets we serve – both in carload and for our intermodal customers. The team has a 'hustle' mindset to engage our customers, be the first to act on new opportunities, and find innovative solutions to help our customers win.

We focus on what we can control, and we are out there meeting face to face with customers to drive business development. Plus, becoming a more efficient railroad has led to a lower cost structure - which helps us compete, especially on shorter haul business. For example, we won new business with fertilizer, construction and lumber customers where the length of haul was less than 500 miles. Those efficiencies along with a solid service product have opened up more doors for us – allowing us to grow and reach markets that we previously could not reach.

So I'm proud of our team's hustle – we've launched more than 90 business development campaigns to generate sales leads this year and have a strong pipeline of new and incremental business opportunities totaling over one billion dollars. For us, every carload matters when we are hunting for new growth.

Despite the challenges from the freight recession and the secular decline of coal, Union Pacific remains committed to investing back in the network. In the past five years, we've invested \$3.4 billion specifically for long-term growth.

The rail industry is capital-intensive and requires significant investments to promote and maximize growth for customers. Last year alone, we spent \$3.7 billion in total capital for

infrastructure, equipment, technology and network expansion – this equates to investing about \$10 million per day. And I want to just make sure we think through that. That’s \$10 million per day. We strategically deploy our capital dollars – to invest where the cost-benefit over the long term shows opportunity for growth and make rail an easier and more accessible option for our customers.

Compared to truck, rail is the most environmentally responsible way to ship freight over land. To capture more over the road shipments, Union Pacific extends its reach through new transloads, short line partners and industrial rail parks.

Our subsidiary company, Loup Logistics, manages 18 transload sites and has over 800 transload partners across all of North America to help shippers who don’t have tracks at their doors. Since 2021, we purchased two new transload facilities in Phoenix, Arizona, and Colton, California, to extend our reach in the fastest growing areas in the nation. Last year, Union Pacific acquired MHX, a full logistics service provider in California who provides first and last mile solutions. MHX operated seven transload facilities when we acquired them, and since then, has added two more transload facilities in Portland, Oregon, and Tacoma, Washington.

Union Pacific connects to more than 260 short lines and ports, which extends our reach by over 20,000 track miles. Last year, nearly 25% of Union Pacific’s volume touched a short line. Earlier this month, we invited 125 individuals from short lines and ports to meet with our senior leadership and our Commercial team. We listened to them and partnered on specific ways to increase business. This was very productive.

In addition, growth is often driven by customers who want to build or expand their own facilities. We have a team of experts who will guide customers looking to connect to rail. Our Industrial Development team supports customers who want to build a new rail-served site. Since 2023, we completed 70 construction projects to locate new customers on Union Pacific's rail network. And we've made the onboarding process faster by taking out around 15 to 25% of the time to complete a project.

For customers who want to utilize an existing rail-served site, we deployed a Site Selector Tool that currently lists over 6,000 properties located within a half a mile of UP's track. We also promote 30 Focus Sites, which are premier rail-served locations across our network. These sites are shovel-ready with access to utilities and roads, which provides an easier way for customers to connect with us. Whichever option is chosen, our dedicated team of experts is there to help walk our customers through this process.

But if customers do not want to make the investment to build a rail-served site, then intermodal is one of the quickest ways to convert business from over the road to rail. Over the last five years, we've accelerated our investments to support intermodal growth and spent one billion dollars in commercial facilities.

And we're not stopping there – over the next three years, we are investing in our intermodal terminals to expand capacity by 11%. We invest where the nation's fastest growing markets are thriving, like the Inland Empire in Southern California, like Phoenix, and Minneapolis – and we're looking to expand in Kansas City in the near future.

And lastly, Union Pacific continues to innovate creative new product offerings to meet our customer needs. This includes promoting cross-border growth and responding to the changing market needs through new services with our interline partners and supporting international crews. Product development means leveraging technology too – we’ve doubled down when it comes to technology and spent about \$50 million of our capital dollars over the last three years to improve the customer experience and make it easier to do business with us.

So as you can see, Union Pacific has a strong focus towards growth with the investment and innovation driven by our team. And I’d be remiss if I didn’t mention that the STB plays a crucial role in minimizing regulatory barriers to growth, for our company and our customers.

We thank this Board for taking the steps like defending a coherent NEPA process at the U.S. Supreme Court and creating a uniform regulatory system for rail service through pre-emption. Both are helpful steps towards supporting growth of the rail industry. We look forward to partnering with this Board on opportunities to support growth and expand our services for new and existing customers.

So I would like to close the same way I started off. Our focus on growth is built around three things:

- It’s safely delivering the service that we sold to our customers,
- Investing in our network to support growth, and
- Innovating through technology and new product development to meet the needs of our customers.

These three key areas are needed to compete in an ever-changing landscape and drive growth at Union Pacific. This is how we win and grow with our customers. And we have great momentum, and I am confident Union Pacific has the right strategy.

Thank you for allowing me to be here today and share our growth story. I'm open for any questions.