

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

Jim Young Chairman

P 402 544 6655  
F 402 501 2112

September 27, 2011

The Honorable Daniel R. Elliott III  
Chairman, Surface Transportation Board  
395 E Street, SW, Suite 1220  
Washington, D.C. 20423-0001

Re: End-of-Year 2011 Railroad Service Outlook

Dear Chairman Elliott:

This letter responds to the Board's September 6 request regarding our plans to meet end-of-year business demands for rail service.

Union Pacific is already handling peak-season traffic, although this year's peak is suppressed by domestic and international economic uncertainties. Year to date, traffic in four of our six business groups is up an average of about 6 percent over last year, but the international export market for grain has declined, and our intermodal traffic was off sharply before recent gains in domestic intermodal shipments moderated the decline. Our customer-satisfaction results remain near record levels, despite an extraordinarily challenging weather year, so we are confident of our ability to satisfy end-of-year demand. We are resourced to accommodate any traffic increase that might arise in the remaining weeks of the year.

In response to your requests:

**“A summary of the impacts that recent flooding and other extreme weather conditions have had on UP's system, and the effort your railroad has undertaken to restore damaged infrastructure and restore service;”**

Blizzards: Early in the year, an exceptional blizzard shut down the Chicago region and our eastern connections. Thanks to dedicated employees and surge resources (locomotives, employees, freight cars, and capacity), Union Pacific recovered quickly. An historic blizzard on Donner Pass in California, coupled with major slides, scarcely affected our service, because we had recently invested over \$100 million in our parallel route through the Feather River Canyon.

Floods: Extraordinary snows in the Rocky Mountains combined with exceptional spring rains to spawn historic, summer-long floods in the Missouri River drainage area. UP initially confronted a threat to its three-track Central Corridor line near North Platte, NE, when the Platte River began to carve a new channel adjacent to our track. With assistance from the Nebraska National Guard and the Nebraska Highway Department, UP used helicopters and an armada of dump trucks to construct a new levee to hold the Platte within its established course. We never lost the railroad. Had we done so, a route carrying over 120 trains per day that is essential to the national economy would have been severed.



Along the Missouri River, six Corps of Engineers dams upstream from Sioux City, IA, needed to release up to four times their prior record volumes of water. As soon as the Corps announced these plans in late May, UP deployed forces to work 24x7 to raise and protect tracks and signals downstream. In the following weeks, our people raised over 71 miles of mainline track and three miles of sidings by as much as six feet. We also elevated or built up nine bridges. These efforts have already consumed 4,863 carloads of aggregate – some 450,000 tons in all – and additional work may be necessary.

Our first priority was to protect the east-west Central Corridor through the Omaha area. This corridor uses two rail alignments in the area, the Blair Subdivision between Missouri Valley, IA, and Fremont, NE, and the longer Omaha Subdivision, which loops south through Omaha and Council Bluffs to connect the same points. Both routes had to be raised, as did a complex maze of tracks in Missouri Valley, IA. We kept at least one route open at all times, while raising others and, again, never lost the railroad.

Further south, UP's Falls City Subdivision is a major route for westbound empty coal trains from Kansas City and beyond to Wyoming, as well as northbound traffic toward Omaha, and the River Subdivision handles UP's eastbound trains of all types from Kansas City to Jefferson City, MO. Despite extensive efforts, we lost both of these lines from late June through most of July, following levee breaks. We did not wait for the Missouri River water level to fall before restoring these lines to service. Our employees waded out into the water and raised both lines out of the river through nonstop efforts. Surfacing work continues on these routes. We continue to inspect these lines for track weaknesses and for damage from breached, non-Federal levees.

UP managed these outages by rerouting trains to other routes and other railroads, including Iowa Interstate, KCS, and CP. Some trains were delayed by 24-48 hours, but many were not. Operations are returning to normal on these routes, as dam releases continue to fall and river levels decline. Our regional velocity is halfway back up to normal levels and continues to improve.

Heat and drought: Record-setting heat and a year of extreme drought in Texas, Oklahoma, and parts of Louisiana and Arkansas have had widespread impacts on our infrastructure. High temperatures caused heat-related slow orders, delaying trains and consuming capacity, while rail traffic in the region grew by roughly 10 percent. Even worse, desiccated clay soils cracked and literally swallowed the ballast structure, resulting in large numbers of slow orders and consuming more capacity. This situation required extensive maintenance work to replace ballast, surface track, and repair misalignments, further reducing velocity and consuming additional capacity. This massive effort continues today. We worked closely with our customers to be sure they knew the status of our operations and their shipments, and we continue to maintain active communications with affected customers.

With temperatures decreasing as fall begins, the heat-caused restrictions have been lifted. Slow orders also have been reduced, and regional velocity is returning to more normal levels. In April, Union Pacific had fewer than 100 slow orders related to surface conditions on its Southern

Region, affecting only 35 miles of track. As the blistering heat and drought took their toll, the number of slow orders jumped to a peak of 447 in August, covering 283 miles of track. In a massive logistical effort, Union Pacific surfaced 800 miles of rail line since July in its Southern Region, reducing the number of slow orders by 17 percent, and we are working on additional routes today.

Yesterday's regional velocity was 2.5 m.p.h. faster than August's. Velocity gains are substantially improving transit times, especially for aggregates, cement, and chemicals. Amtrak service has also regained reliability. Union Pacific expects to continue to improve its regional track structure throughout the fall.

**“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;”**

With peak season already upon us, our customers are benefitting from preparations we have been making over many years. Union Pacific is investing record amounts of capital in 2011, anticipating total capital expenditures for the year of \$3.3 billion, an all-time record. These investments expand on the nearly \$30 billion we have invested in the railroad since 1999.

Union Pacific's strategy of maintaining “surge capacity” with extra locomotives to handle unusual events also puts us in a very strong position to handle peak business. Our crew base is fully staffed, and, in fact, we have trained employees on furlough whom we would prefer to bring back to work.

Focusing on major commodities, export grain movements have declined, primarily due to a smaller than expected U.S. corn crop and very substantial increases in world supply compared to last year. We are cutting back on resources to move this commodity, hoping for a recovery later in the year. We are meeting all demand to move grain and grain products, including ethanol.

During the Missouri basin flooding, we actually increased coal shipments. Earlier in the year, Ohio and Mississippi River floods had halted or delayed coal transloading at river terminals. As those floods subsided, we expanded coal service, despite the floods in the Missouri Valley. Today, Union Pacific is moving even larger volumes of coal, as utilities replenish supplies after a hot summer. In the Southern Powder River Basin, Union Pacific increased the number of trains loaded per day from 33.5 in the second quarter to 36.6 in the third quarter.

Chemical shipments have been very strong all year, exceeding our expectations. We see no sign that this strong demand is ebbing. Heat and drought in our Southern Region affected service quality during the summer, but service is improving this month, and our shippers are telling us that they see the improvement.

Throughout most of the year, Union Pacific's intermodal volumes fell short of our expectations. International imports have been running below last year, and there is little sign of a significant peak for this traffic. Union Pacific fell well short of our primary competitor in domestic

intermodal growth because of our evolving market strategy. In recent weeks, however, domestic intermodal traffic has been growing, currently up 9 percent on Union Pacific over last year. We are taking the last of our stored containers out of storage to meet this peak demand.

**“A summary of the investments you have made in freight service and capacity improvements for the past year, and your anticipated rail congestion points and plans to improve them, with specific attention to mitigating potential winter storm related interchange issues in Chicago;”**

Our \$3.3 billion capital investment plan for 2011 is the largest in the company’s history. During the last year, we added 53 miles of double-track on our Sunset Route in Arizona, completed and extended sidings between El Paso and Ft. Worth, began a project to double track the Blair Subdivision in Nebraska, added CTC to the Golden State Route in Kansas, and completed siding extensions between Kansas City and Ft. Worth, among many projects. Siding projects were also started between Dallas and Shreveport, between Houston and San Antonio, and on our lines between Portland and North Platte. We also increased reliability by investing approximately \$1.7 billion in rail, ties, yards, bridges, and other infrastructure.

We recently announced construction of a new fueling facility, block-swap yard, and intermodal ramp at Santa Teresa, NM, a project that will cost well over \$350 million over the next several years.

In Chicago, the CREATE program continues. This key public-private partnership is not only improving goods movement through this critical hub, but also hardening the infrastructure against weather events. Union Pacific believes that it responded as effectively as possible to this year’s blizzard, digging out our large Proviso yard in 48 hours. In an event like that, the primary problem is often surface roads; employees cannot get to work when authorities close streets and highways. In any event, we have worked with the other railroads in Chicago on ways we can all improve our response to significant snowstorms.

**“Developments in passenger rail service access (Amtrak, commuter or high speed rail), and Amtrak on time performance on UP lines;”**

On the Illinois Department of Transportation High Speed Rail project between Joliet, IL, and East St. Louis, UP has completed 191 miles of track upgrades to permit passenger trains to operate at 110 m.p.h. Approximately 68 additional miles will be upgraded in 2012. Amtrak expects to begin 110-m.p.h. service on a segment of the line next summer. In Missouri, UP executed agreements with the Missouri Department of Transportation for federal rail investments at two points on the line between St. Louis and Kansas City.

In cooperation with federal, state, and local authorities, as well as BNSF, UP has entered into a public-private agreement for elimination of the busiest, at-grade rail crossing in California. The Colton Crossing project will build a flyover that elevates Union Pacific’s Sunset Route over BNSF’s “Transcon” mainline. The \$202 million project will improve the efficiency of lines used

by Amtrak, Metrolink, and freight trains. The project is funded by USDOT, the State of California, and the two freight railroads.

UP recently executed an agreement with the TriMet transit system in Portland, Oregon, giving the agency access to a 7.3-mile strip of railroad land for new light rail service. The corridor will include safety walls, track separation, fencing and other safety measures. Culminating years of discussions, UP and the City of Sacramento are moving ahead with a \$41 million rail line and platform relocation project as part of a major urban redevelopment project. The rail relocation will clear the way for new housing, retail, entertainment and museum space.

UP continues its longstanding relationship with the METRA commuter rail service in Chicago, running 194 trains each weekday and handling 115,000 daily trips. Upgrades have been completed to the Geneva Subdivision between Geneva and Chicago to increase traffic flow while ensuring customer safety. In California, UP is working with Capitol Corridor and ACE to add a new intercity passenger rail stop at Santa Clara near San Jose Airport. Around our system, UP is continuing to work with a number of agencies to study the feasibility of new passenger rail service. Sixteen such proposals are currently under consideration. Studies generally include computer modeling and engineering feasibility analyses.

#### **Amtrak on-time performance on UP lines.**

UP continues to provide high levels of Amtrak on-time performance, despite weather challenges this summer. The San Joaquin and Capitol Corridor services in California are achieving 98 percent contractual on time performance year-to-date.<sup>1</sup> This is well above the 84 percent year-to-date performance reported for Amtrak's Acela service. The Cascades service in Oregon has operated in the 92-95 percent range since completion of UP track improvements earlier in the year.

Elsewhere in the country, floods, extreme heat and drought conditions impacted service. Despite the adverse conditions, the Sunset Limited's contractual on-time performance is 78 percent year-to-date. The California Zephyr operated 80 percent on time year-to-date, though service was impacted in recent months by flooding on non-UP portions of the route, resulting in extremely late handoffs of this train to UP. Track work in Colorado also affected this train. The Texas Eagle has been hit hard by slow orders and other disruptions connected with the heat and drought conditions in Texas this summer. As noted above, its performance is improving.

#### **“A report on your company's most recent customer service survey.”**

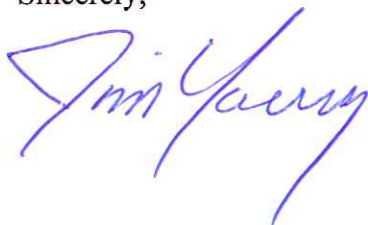
Union Pacific has surveyed our customers each month for over 20 years. By asking groups of customers similar questions in the same month each year, we can accurately determine how we are performing and focus our efforts on improving the service and value we provide.

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<sup>1</sup> Note that UP is reporting on-time measurements under its contract with Amtrak. Amtrak often uses other measurements, some of which include Amtrak-caused delays and delays caused by other railroads.

Our latest survey was for the month of August 2011. Our Customer Service Index came in at 92 (out of a possible 100) points, which is the highest rating we have ever recorded in August, tying our second best month ever. Our year-to-date customer satisfaction level is also 92, three points better than 2010. As of yesterday, our September level was 91.

Sincerely,

A handwritten signature in blue ink, appearing to read "Jim Yarusso". The signature is fluid and cursive, with a long, sweeping tail on the final letter.

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