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Lance M. Fritz President and Chief Executive Officer

August 3, 2015

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

Dear Chairman Elliott:

I am writing in response to your July 13, 2015 letter requesting Union Pacific's outlook and plans through the remainder of 2015 and the winter. We expect normal or muted seasonal peaks this year, as I describe in more detail below, and Union Pacific is adequately resourced to handle these peaks.

"Expectations for any seasonal or other projected peaks in carload, unit and intermodal traffic and the actions your railroad will take to prepare, including a discussion of freight car, locomotive, and crew availability. Please detail any predicted changes in historical volumes or train speeds for commodities such as coal, automobiles, grain, chemicals, crude oil and other energy-related products and describe any commodity-specific plans for this traffic."

Intermodal Peak. Highway conversions and new premium services drove volume growth in the domestic intermodal market during the first half of 2015. We believe highway conversions will continue to present growth opportunities for domestic intermodal. To support this growth, Union Pacific has added several thousand new containers and chassis to our domestic fleet. International intermodal volume rebounded during the second quarter as we recovered from the West Coast labor dispute and associated congestion early in 2015, but total volume was up only slightly year-over-year. We expect a normal peak season for domestic and international intermodal, though it could be muted.

Grain Peak & Other Agricultural. The U.S. Department of Agriculture is projecting solid corn and soybean production in 2015. Nonetheless, we expect a muted peak season for grain exports due to lower grain commodity prices, a stronger U.S. dollar, and abundant global inventories. Union Pacific has over 2,000 covered hoppers in storage that are available to meet unanticipated surges in equipment needs for grain. Ethanol volumes declined in the second quarter, driven by extended plant maintenance, but we expect ethanol production to return to seasonally normal levels. To support our perishable products franchise, Union Pacific is investing in new refrigerated boxcars this year. We also implemented a new expedited service product for perishables from northern California to New England in June.

Coal. Demand for coal has declined sharply this year. Electricity from natural-gas fired plants has become more competitive and displaced electricity from coal-fired generation. Natural gas prices remain low, reducing coal demand and increasing coal stockpiles above their five-year average. Mild weather has further impacted coal demand. While we have experienced more normal summer temperatures recently, we expect lower natural gas prices, higher than average stockpiles, and low export demand will continue to limit coal demand.

Automotive. The strong demand for vehicles over the past few years has continued its positive trend so far in 2015. In the second quarter, the Seasonally Adjusted Annual Rate for light U.S. vehicles sales reached 17.1 million vehicles. Looking at the first half of the year, U.S. light vehicle sales increased 4% compared to 2014. We expect demand to remain strong for the duration of 2015. Union Pacific is well positioned to handle this demand with our capital investments in multi-level rail cars and commercial facilities. We are adding new multi-level rail cars this year to handle future growth.

Chemicals, Crude Oil, & Other Energy Related Products. Our chemicals carloads were flat in the second quarter, as volume gains in plastics and liquid petroleum gases were offset by lower crude oil shipments. We expect shipments of plastics and liquid petroleum gases to remain solid, but low crude oil prices and unfavorable spreads will continue to limit demand for crude by rail shipments. We also anticipate lower demand for frac sand and pipe shipments as a result of lower crude oil prices and reduced drilling activity.

Locomotives. We had around 900 locomotives in storage at the end of June. These locomotives can supplement our active fleet of over 7,000 locomotives if we experience higher demand and unanticipated seasonal peaks.

Crews. We continue to evaluate our hiring plans, balancing attrition with current and expected demand for the remainder of 2015. As of June 30, approximately 1,200 train, engine, and yard employees were furloughed across our system due to lower than expected demand, and that furlough count will continue to ebb and flow depending on attrition, demand, and velocity.

"A description of any geographic areas and/or commodities for which you anticipate particular challenges in meeting your internal standards for customer service and performance. In the past, stakeholders have raised concerns with the Board about supply chain fluidity for commodities such as coal, automobiles, ethanol, and propane. Your response should include a description of how your company anticipates working with customers to avoid or mitigate critical shortfalls of commodities during periods of heavy rail congestion."

The operating environment in 2015 has required agility as we faced significant volume reductions in coal, grain, metals, and minerals and numerous flooding-related outages. In the second quarter alone, we experienced more than 100 weather-related track outages, including a significant interruption in the Powder River Basin during early June. Our service levels have improved since 2014, with positive gains in system velocity and reductions in freight car dwell. We fully expect that our service will continue to improve.

We face constraints at different times and different places on our network depending on demand and weather or other service interruptions. We actively manage and plan network operations to optimize fluidity and service for all customers. As an example, our Marketing and Sales representatives have pre-harvest planning meetings with many of our grain customers to understand commodity flow shifts so that we can identify possible geographic constraints and adjust resources accordingly. Also, our business planning process—which partly relies on customers' forecasts—identifies possible constraints and we address those constraints through targeted process initiatives and capital spending. For example, because capacity in parts of our Southern Region remains tight as volumes are above pre-recession levels in much of that region, we plan to spend over $300 million this year to add capacity in our Southern Region for service, growth, and productivity.

"A summary of the investments in freight service and capacity improvements year-to-date and planned for the full year. Please include a discussion of any technology and business process improvements that have the potential to enhance network fluidity and resilience in the face of protracted severe winter weather."

Union Pacific plans to spend approximately $4.2 billion on capital investments this year. Of that amount, we project that we will spend approximately $1.85 billion for infrastructure replacement, $1.1 billion for locomotives and equipment, $650 million for capacity and commercial facilities, $400 million for Positive Train Control, and $200 million for technology and other investments. As part of our business planning process, we continuously evaluate how projected volumes fit within the confines of network capacity and make corresponding adjustments to our capital plan as volume and returns dictate.

We also look for and deploy new technology and business processes to enhance our service and efficiency. Earlier this year, Union Pacific installed the first segment of "long rail", an innovative new rail technology. "Long rail" is 480-feet long, which is six times the size of the current industry rail standard. These 480-foot sections require only two welds to create quarter-mile lengths. Because welds are softer than the rail steel, cracks, defects, and failures occur more frequently at the weld locations. By reducing the number of welds by 88%, "long rail" has the potential to significantly reduce broken rails, enhancing the safety and reliability of Union Pacific's infrastructure.

Union Pacific is now several years into implementing a continuous improvement initiative called "the UP Way." The UP Way engages all employees to continuously improve safety, service, and efficiency by providing the methods, tools, and processes to standardize work, eliminate variability and waste, and solve problems at their root cause. We currently have over 80 major and hundreds of minor UP Way projects throughout our system. UP Way projects have generated and will continue to deliver meaningful improvements to safety, service, and efficiency.

"A detailed discussion of efforts to improve fluidity through and around the Chicago gateway. Please discuss the measures you have implemented over the past year to reduce the likelihood of severe gridlock, including the development of alternate gateways and routings. If there are unrealized opportunities to improve performance through Chicago of a non-capital nature (e.g. better cooperation, communication, joint use of assets, traffic reroutes), please elaborate."

Union Pacific took multiple steps, along with our connections, to improve throughput in Chicago last year. For example, the railroads that operate in Chicago adopted an objective, metric-based alert plan for triggering operational plans in Chicago. Union Pacific also established 24-hour command centers in every service unit in our Northern Region (including Chicago) during the winter to decrease our response time for addressing broken rails, snow removal, and frozen switches. These efforts were successful as Chicago's operations remained normal through the 2014-2015 peak season and winter. Union Pacific will continue to employ these same measures this winter to ensure fluidity through and around the Chicago gateway.

In addition to the successful measures implemented last year, Union Pacific is actively exploring opportunities to improve traffic flow, gateway fluidity, and inter-railroad communication.

"Concrete steps taken and planned to improve Amtrak performance."

Union Pacific is dedicated to providing excellent service to all customers, including Amtrak. As discussed above, Union Pacific invests a significant amount of private funds into our railroad to harden our infrastructure and build capacity. Amtrak continues to benefit from these private investments, all at no cost to Amtrak. We are always willing to work with our state and federal partners to further improve passenger train service should additional public funding become available.

Union Pacific is in regular contact with Amtrak representatives and works collaboratively with Amtrak to monitor and address performance. Union Pacific hosts six state-sponsored passenger services (*i.e.*, Capitol Corridor, Cascades, Lincoln, Missouri River Runners, Pacific Surfliner, and San Joaquin) and four Amtrak long-distance trains (*i.e.*, Coast Starlight, California Zephyr, Sunset Limited, and Texas Eagle). Amtrak's Capitol Corridor and San Joaquin services in Northern California are consistently among the most reliable services on the Amtrak system, regularly achieving on-time performance results higher than 95%. Amtrak's other four state-sponsored services on the Union Pacific are also high performers and regularly achieve on-time performance results greater than 90%.

On-time performance for long-distance trains varies more as the number of host railroads in the route increases and as the length of the trip increases. Despite these challenges, Amtrak's Coast Starlight on-time performance is consistently above 80% and on-time performance metrics on the Sunset have improved recently to above 80%. While the performance of the California Zephyr and Texas Eagle have been less than optimal, Union Pacific believes performance will improve as the host railroads complete maintenance and capacity projects scheduled on these routes. For example, tie replacement work recently caused delays to the California Zephyr, but now that it is complete, Union Pacific expects to see service levels improve. As always, Union Pacific is committed to improving system fluidity, which benefits both its freight and passenger customers.

"A discussion of measures taken to enhance your communications with customers and other stakeholders, in particular with respect to performance, operating conditions, and planned or unplanned service outages."

Union Pacific has an ongoing and active customer communication process in place to inform customers of key system conditions, service outages, and other performance information. Our Marketing and Sales and National Customer Service Center representatives have frequent (daily if necessary) interactions with our customers to discuss their needs and Union Pacific's performance in meeting those needs. In addition, Union Pacific provides weekly service updates through our customer website, which highlights network performance and scheduled maintenance projects for the upcoming week. We also have an automated system in place that will alert our customers when their traffic will be affected by re-routing or outages.

When weather or other significant events could broadly impact our customers, we increase our communication. For example, when Tropical Storm Bill neared the Texas coast, we informed our customers of the expected impact. We also explained how our hurricane response plan would mitigate the service impact by strategically staging resources such as ballast, pumps, locomotives, generators, and work crews throughout the affected region. Likewise, we proactively communicate and develop plans with our customers when we have planned service outages. In March, we closed the Giddings Subdivision in Texas for eight days to overhaul bridges, replace ties, and other track work in a maintenance "blitz." This maintenance blitz allowed multiple engineering gangs to work simultaneously while the entire subdivision was closed to train traffic, condensing the amount of time the track was out of service and eliminating about 72 days' worth of additional work. In preparation for this blitz, we communicated with all of our customers about the project, including more detailed discussions with those customers who would be most impacted. We worked proactively with those impacted customers to make alternate plans, such as ramping up production to increase traffic prior to the blitz.

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Union Pacific remains focused on operating safely and efficiently no matter what peak season and the remainder of 2015 brings. We will continue to balance our resources with demand. Looking beyond 2015, we remain optimistic about the strengths of our diverse rail franchise.

Sincerely,

Lance Fritz

cc: The Honorable Ann D. Begeman, Vice Chairman
The Honorable Deb Miller, Commissioner