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

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

Jack Koraleski Chairman, President and CEO

September 15, 2014

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 August 19, 2014 letter requesting Union Pacific's outlook and plans through the remainder of 2014 and the entire winter. As the Board knows, 2014 has been a challenging year. Demand for rail transportation has surged to unexpected levels not seen since the pre-recession boom of 2006. Our seven-day carloadings averaged 192,620 in August—exceeding our record 191,968 seven-day annual average in 2006. Adding to the challenges, only 40 of the first 243 days through August 2014 passed without a major service interruption somewhere on our system, as we dealt with the extreme cold and repeated heavy snowfalls and a series of severe thunderstorms that led to flooding and washouts.

These challenges demonstrated that our system is more resilient than ever. In earlier years, the combined challenges of higher demand and service interruptions might have ground our system to a halt. But because we invested more than $40 billion of capital into our railroad since 1999, we have been able to bend, but not break. Our system velocity is holding around 24 miles per hour, which means we are moving traffic more than two miles-per-hour faster than we moved approximately the same volumes in 2006. Union Pacific remains committed to driving operational improvements to serve the needs of our customers and providing the service our customers have come to expect from us. We are taking specific steps to meet customer demand for the balance of 2014 and the coming winter, as discussed below.

"Expectations for any seasonal or other projected peaks in carload, unit and intermodal traffic and the actions your railroad will take to prepare for those peaks, including a discussion of freight car, locomotive, and crew availability."

Intermodal Peak. We have experienced strong demand in the domestic intermodal market this year, as continued highway conversions and new premium services contributed to our volume gains. We expect a peak period through November for domestic intermodal business. To support this demand, we are purchasing 5,000 domestic containers in 2014. These purchases supplement the 23,000 containers acquired since 2008. We expect a muted peak season for international intermodal business. We believe pre-shipping took place earlier this year, which explained strong demand in the international intermodal market in the second quarter, as shippers sought to mitigate possible product flow disruptions from potential labor-related stoppages at West Coast ports.

Grain Peak. The U.S. Department of Agriculture is projecting another record-breaking Midwest corn and soybean harvest for 2014. Through pre-harvest planning sessions and resource allocation, Union Pacific is prepared to transport the grain traffic. We are expanding our covered hopper fleet by more than 1,500 units. All of them should be on line by the end of October. With these new hoppers, Union Pacific will have increased our fleet by 10% over 2013 bringing our grain fleet to 16,600 covered hoppers. Moreover, these new covered hoppers can hold more than 5,000 cubic feet of grain per car, compared to older hoppers that carry about 4,750 cubic feet. We also are increasing the number of shuttle trains operating on our system to 68 this year from 40 last year. We expect to spend approximately $140 million in capacity for our Northern Region, including $70 million in the upper Midwest.

Locomotives. We employed our surge resources and are adding additional locomotives in preparation for peak season, as well as responding to higher overall demand this year. Since last fall, we added about 850 locomotives to our active fleet. In total, we are purchasing 229 new locomotives this year as part of our 2014 capital plan.

Crews. We increased our Train, Engine, and Yard ("TE&Y") workforce by more than 800 since last fall. We also ramped up our hiring plans. We roughly doubled our TE&Y hiring plan from our original expectations and now plan to hire around 3,200 TE&Y employees for the full year to cover attrition and growth.

"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 your commodity-specific plans for this traffic."

Coal. Demand for coal is much stronger this year than in recent years. In December 2013, coal inventories were well below historic levels and, on average, were down 31% from the prior year. Inventories fell further when prolonged, extreme cold hit much of the U.S. last winter, increasing demand for electricity. Moreover, higher natural gas prices contributed to greater demand for coal-fired electricity generation. Through August 30, 2014, our coal carloadings are up 2% compared to 2013. While the summer saw below-average temperatures for much of the country, utility stockpiles are still down over 20% from their five-year averages. Accordingly, we anticipate demand from utilities as they replenish and build coal stockpiles for the coming winter.

Responding to the demand for coal-fired generation, our coal customers desired to ship more coal in 2014—much more coal then they told us to plan for last year. We responded by activating our surge resources, acquiring more locomotives, and hiring more employees. We added coal trainsets and increased train size where we could, so that our customers are receiving more coal. We are closely monitoring our deliveries and maintaining service logs to track customer issues, including low inventories. We also are proactively communicating with our customers and updating them on our efforts to deliver more coal.

Automotive. After a relatively weak start in January, we have seen strong demand for finished automobiles in 2014, particularly in the light truck segments. In August, the Seasonally Adjusted

Annual Rate for light U.S. vehicle sales peaked at 17.4 million vehicles, which is the highest sales rate since January 2006. We expect sales to remain strong for the rest of the year.

Our investments to improve and expand our multi-level fleet used to transport finished vehicles by rail positions us to handle the increased demand. Over the past ten years, we made an average annual investment of approximately $32 million in our auto-rack fleet. Union Pacific also is the largest contributor to the national multi-level pool. Because of these investments, Union Pacific was able to run extra trains, provide alternative origins for loading, and share Union Pacific's equipment investment in the national multi-level pool with other railroads during the summer lull in industry production to assist automakers to drive down high inventories of unshipped vehicles that had accumulated as a result of harsh weather last winter and get them to dealerships. In close collaboration with our connecting carriers, industry inventory ground counts were reduced from a peak of over 200,000 vehicles to around 100,000 vehicles today. We continue to work closely with the automotive industry and other railroads to further reduce ground counts while handling increased demand.

Grain & Ethanol. We have experienced strong demand for grain this year as last year's harvest continues to move to U.S. and export markets. In the first half of 2014, grain carloads were up 41% compared to 2013. As I explained above, we are acquiring more covered hoppers and locomotives to accommodate the strong demand for grain. We also are offering 28 more shuttle trains this year compared to last year to efficiently handle the growth. Similar to grain, demand for ethanol has been strong. In the first half of the year, ethanol shipments were up 13% compared to 2013. We had record ethanol shipments in the second quarter. Given the 2014 harvest estimates, we believe ethanol shipments will remain strong. Our Northern Region capacity investments will be valuable in supporting the grain and ethanol growth, as well as other commodity growth in the upper Midwest.

Chemicals & Crude Oil. Our chemicals carloads were down slightly in the first half of 2014. The main driver was lower crude-oil shipments. However, we are moving near-record volumes as strong industrial chemical and fertilizer shipments have offset lower crude-oil shipments. We are continuing our aggressive capital-spending plan in our Southern Region to handle the near-record chemicals volumes, as well as other commodity growth. Union Pacific invested more than $425 million for capacity in our Southern Region in 2012 and 2013. We expect to spend roughly another $300 million for capacity this year.

Other Energy Related Products. We anticipate that aggressive shale drilling will continue into the future, driving continued strong demand for drilling-related products. Key among those products is frac sand, which largely moves from Minnesota and Wisconsin to Oklahoma and Texas. Our frac sand shipments doubled and doubled again from fewer than 50,000 carloads in 2009 to almost 200,000 carloads in 2013.

To serve this demand, we shifted resources and redirected investments because the predominant traffic flow over our system historically has been east-west, while the frac sand traffic mostly moves north-south. We added approximately $50 million of dollars to this year's capital plan to accelerate capacity projects in our Northern Region to handle the growth in frac sand and other commodities. While these capacity projects are being completed, we are managing the capacity we have on the network. For example, where it proves beneficial, we employed directional running and adopted alternative routes to reduce congestion and efficiently handle our customers' traffic.

"A description of any geographic areas and/or commodities for which you anticipate particular challenges in meeting customer service expectations. 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."

We are focused on driving operational improvements and investing in our network to meet our customers' expectations. We are seeing strong growth on parts of our network in the upper Midwest that historically have not handled that level of traffic. Comparing January through August, car miles on our Twin Cities Service Unit increased 55% from 98 million to 152 million between 2010 and 2014. Between 2011 and 2013, we invested $14 million in nine capital projects in the Twin Cities region to build capacity and relieve congestion. We have identified more than a dozen additional capacity projects in this area for 2014 and 2015. We must continue to invest and earn returns sufficient to support the investment needed to handle growth and address future constraints in the area.

Interchange gateways with the eastern carriers and other carriers present additional challenges, if we are unable to efficiently move trains through those gateways. In particular, Chicago, St. Louis, and Kansas City interchange fluidity is critical to the movement of coal trains to utilities served by other carriers.

Customer communication is key when working through any challenge or service issue. We have an established, disciplined approach to customer communications. Earlier this year when we were experiencing network challenges and weather disruptions, we reallocated resources to our National Customer Service Center and deployed operating managers to make sure that we provided timely and accurate information and that we followed through with our customers. We provided numerous updates to our customers through multiple communication channels. Often, we had daily (if not hourly) contact with our customers.

In addition to communicating during service challenges, we have regular contact with our customers, their trade associations, and government officials. We proactively provide information on our service, capital investment, and plans for handling our customers' traffic. For example, we recently sent letters to federal, state, and local government officials, grain trade associations, and other agricultural stakeholders detailing our plans to support the harvest this year. We believe our approach to customer communications is beneficial to customers, and we will continue to use this approach.

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

Union Pacific is on pace to spend approximately $4.1 billion on capital investments this year. Of that amount, we project that we will spend approximately $1.74 billion for infrastructure replacement and $1.09 billion for locomotives and equipment.

We expect to spend approximately $140 million in our Northern Region and $300 million in our Southern Region. These investments (such as double tracking and terminal improvements) will add critical capacity and improve fluidity in both regions.

The Tower 55 capacity project is of particular importance for the peak season. Tower 55, near Ft. Worth, Texas, is one of the nation's busiest rail intersections. As many as 100 passenger and freight trains pass the area every day. To alleviate congestion and enhance train flow, Union Pacific, BNSF Railway, and city and regional governments cooperated to rebuild and upgrade this critical intersection. Thanks to tremendous cooperation among the railroads and governmental entities, the Tower 55 project was completed ahead of schedule and prior to peak season. The new configuration can accommodate up to 135 trains per day, compared with a maximum of 110 a year ago. The project has increased capacity for the high-priority passenger service and intermodal goods, agricultural products, coal, and other goods. Now that this multi-phase project is complete, 20-plus trains per day no longer require regular rerouting. Most of the extra crews needed for rerouting trains returned to their regular service units. The completion of this project also means that we have freed-up network capacity where the Tower 55 rerouted trains were operating.

In our Western Region, we completed a number of capacity projects this year. Notably, we completed the Santa Teresa facility in New Mexico. This new $400-million facility includes a locomotive-fueling station, crew-change buildings, and an intermodal ramp with an annual lift capacity of around 225,000 containers. This strategically placed facility will produce logistics efficiencies along Union Pacific's critical Sunset Route between Los Angeles and El Paso, Texas. We also are continuing our long-term double-track project on our Sunset Route, and we expect to complete 56 miles this year.

"A detailed discussion of efforts to improve fluidity through and around Chicago. Please discuss what additional steps can and will be taken to minimize disruption and congestion in Chicago this winter. If there are significant 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 has taken multiple steps, along with the industry, to improve throughput in Chicago now and for the winter. First, of the 3,200 TE&Y employees we are set to hire this year, approximately 50% are on our Northern Region, which includes over 350 new hires in the Chicago area. More crews will help us better handle traffic growth and respond more quickly to network impacts.

Second, the railroads that reach Chicago adopted a metric-based approach for triggering operational plans in Chicago. Previously, whether or not the railroads triggered an alert plan for Chicago was uncertain because all the railroads had to agree that the situation called for a particular plan. Obtaining consensus was difficult and time-consuming at times. Looking back at what we learned last winter, we decided that an objective, metric-based process would provide better results. The railroads now have implemented a system where certain metrics for terminals, lines, and weather will trigger a specific plan. We believe this new process will allow the railroads to respond better in Chicago.

Third, Union Pacific took a hard look at how we performed in Chicago and in our Northern Region during the 2013-2014 winter. From those lessons learned, we started planning and making improvements. We began coordinating our own internal winter-response plans last month, two months earlier than normal. We decided to establish 24-hour command centers in every service unit in our Northern Region (including Chicago) from November 28, 2014 to April 2, 2015. These command centers will decrease our response time for addressing operating issues, such as broken rails, snow removal, and frozen switches. We also will schedule maintenance gangs to work at night, so that they can respond to maintenance issues more quickly. Additionally, we are investigating building snow fences in areas that are prone to snow drifting, and other creative solutions for keeping snow off of our right-of-way.

Fourth, we determined the root cause for certain operational delays in our Chicago commuter operations during the extreme winter weather and addressed those causes to prevent further delays. For example, we found that a major cause of delay was from the air-braking system not setting up properly because moisture accumulated in the brake lines. To address the issue, we replaced brake valves, and we are now inspecting for brake-line moisture on a monthly basis. We also found that switches at certain locations required manual removal of snow and ice more frequently than others, so we worked with the switch manufacturer to develop covers to protect those switches from the winter elements.

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

Union Pacific takes our responsibilities to Amtrak seriously. Amtrak is our customer, and we try to provide them with quality service. Union Pacific hosts four Amtrak long-distance trains: the Coast Starlight, the California Zephyr, the Sunset Limited, and the Texas Eagle. While the on-time performance for the Coast Starlight is improving, the recent on-time performance for the California Zephyr, Sunset Limited, and Texas Eagle has been less than optimal. However, portions of the routes for all four of these trains are controlled by other host railroads, and delays on portions of these routes that Union Pacific does not control have also influenced the on-time performance for these trains.

Union Pacific believes that the delays incurred by these long distance trains will improve as the freight railroads that host these trains complete maintenance and capacity projects, thereby improving system fluidity. For example, the construction curfews for the Tower 55 project caused delay to the Texas Eagle and the Sunset Limited as Union Pacific rerouted approximately 20 trains per day to other portions of the Texas Eagle route and the Sunset Limited route. Now that the work at Tower 55 is complete, Union Pacific expects to see a reduction in delays experienced by the Texas Eagle and the Sunset Limited. In addition, Union Pacific continues to focus on system fluidity and velocity improvement, which we expect will result in additional reductions in the delays these Amtrak trains and other trains have experienced.

In addition to the four long-distance trains, Union Pacific hosts portions of six state-sponsored passenger services. The Capitol Corridor service in Northern California is consistently among the most reliable services on the Amtrak system, regularly achieving on-time performance results higher than 95% for up to 30 trains a day. Other state-sponsored services include the Cascades, Lincoln, Missouri River Runner, Pacific Surfliner, and San Joaquin. Union Pacific continues to focus on system fluidity and velocity improvement, including significant work for implementing High Speed Rail service for the Lincoln trains between Chicago and St. Louis. Union Pacific expects this work will result in reductions in the delays these Amtrak trains and other trains have experienced.

In addition to the matters discussed above, it is also noteworthy that the Department of Transportation ("DOT") has proposed rules related to trains carrying 20 or more cars of flammable liquids. In particular, DOT is seeking comments on a proposal to slow these trains to 40 miles per hour with three proposed geographic reaches: (1) all mainline on which these trains travel, (2) population centers of 100,000 or more, or (3) High Threat Urban Areas, as defined and applied to movement of Rail Security Sensitive Materials. Our modeling demonstrates that any of the proposals would slow all traffic on certain lanes. If the rule were implemented on an entire main-line route, it would necessarily slow significant numbers of both freight and passenger trains in ways that would require large amounts of time and capital to overcome. We are filing comments on the proposed rule on September 30 that further address this issue.

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Union Pacific remains committed to investing in employees, infrastructure, and equipment, so that we can grow alongside our customers. As we continue to bring on additional resources, we expect improvement in our velocity and overall service to our customers.

Sincerely,

Jack Koraleski

Jack Koraleski

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