September 14, 2007

Jim Young
Chairman

The Honorable Charles Nottingham
Surface Transportation Board
Washington, DC 20423-0001

Dear Chairman Nottingham:

Union Pacific Railroad Company provides this response to your letter of August 15, 2007, seeking information about our service plans for the remainder of the year, and our plans to create additional capacity in 2008 and beyond. As explained in greater detail below, our 2008 plans are currently uncertain pending resolution of significant threats to our ability to earn an adequate financial return and our corresponding ability to invest in future capacity.

Our responses to your specific requests are as follows:

"The steps Union Pacific is taking to ascertain demand for and prepare for this year's peak shipping season."

Accurate forecasting of traffic demand is critical to sizing and deploying resources throughout the year. Union Pacific develops detailed forecasts of transportation demand annually and updates those forecasts at least quarterly. Our forecasts are based on frequent and detailed communications with our customers regarding their anticipated shipping needs. We also consider public and private forecasts of economic indicators, as well as changes in shipping patterns caused by fluctuations in the national and international economies.

Other factors that contribute to our preparation for surges in demand are a hiring program designed to maintain adequate levels of train and engine employees, investment in distributed-power locomotive strategies and continued development of the Unified Plan -- a plan to create more network efficiency. We also work closely with customers to make sure we understand and are able to anticipate their shipping needs, as well as improve our forecasting accuracy. We have improved our forecasting accuracy by roughly 15 percent over the last two years.

Nevertheless, this has been a difficult year to predict. Through the first eight months of 2007, Union Pacific experienced a 2 percent decrease in carloadings from the record-setting 2006 levels. Peak season pre-shipping that drove last year's records did not materialize this year, as the softer economy had retailers working off inventories. We expect some strengthening in volumes in the second half, with a more traditional peak season shipping pattern driven by an increase in international intermodal volumes and agricultural products, but we see only some signs of that pattern so far. UP's resource

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capabilities and the operational initiatives cited above, along with the addition of Automated Gate Systems at Global I and Global II near Chicago and expansion of our intermodal facilities in the Los Angeles Basin and Marion, AR, in the Memphis area will help us handle this volume. We are aggressively repositioning locomotives and cars to address the imbalance of imports over exports that come into the Los Angeles area.

Additionally, key 2007 maintenance projects on primary corridors to and from the Los Angeles Basin are complete and will not impede anticipated demand through the remainder of the year.

Agricultural Products have seen an early start to the peak shipping season due to a hard red wheat (HRW) crop that is 38 percent larger than last year. Although at historically high prices, U.S. wheat is competitively priced in the world market. HRW export shipments through the first 12 weeks of the crop year, which began June 1st, are nearly double last year's pace, while total sales for the crop year during the same time period have increased threefold. HRW represents 11percent of UP's agricultural business. We also expect strong shipments of corn and soybeans during the last quarter of 2007, with a 13-billion bushel corn crop (a 24 percent increase) and a 2.6-billion bushel bean crop.

Union Pacific has responded to the anticipated harvest peak by increasing our shuttle fleet from 55 sets to 70 sets, and we will take 700 cars out of storage before the end of the month. We have 1,500 additional grain cars in storage that can be released if demand is higher than anticipated. We are also conducting planning meetings with key shippers to improve forecasting and logistics for harvest.

Coal production through the first six months of the year in Wyoming's Southern Powder River Basin (SPRB) was flat compared with 2006. Production problems and poor weather conditions across the Midwest during the first half of the year impacted coal volumes for Union Pacific, resulting in a 2 percent and 4 percent reduction in first and second Quarter SPRB tonnage, respectively. Union Pacific expects SPRB coal production to increase on a year-over-year basis during the remaining 4 months of the year, and Union Pacific set a tonnage record for SPRB volume in August of 17.2 million tons, 250,000 tons higher than the last monthly record set in December 2006. The additional volume is attributed to significantly increased capacity investment by two of the four major mining companies operating in the SPRB, recovery from significant rainfall in northeastern Wyoming, and greater rail capacity on the Joint Line and throughout Union Pacific's coal network.

Union Pacific is well positioned to handle future demand for SPRB coal, assuming that the producers are able to maintain forecasted production levels.

Severe weather events similar to those experienced earlier this year that left water in the mines and washed out strategic sections of the railroad's coal network are always a risk to the supply chain. Significant investment in capacity across Union Pacific's coal corridors, a 2 percent increase in coal tons per train year-over-year, and reduced train dwell at North Platte will all contribute to the railroad's ability to handle increased demand through the remainder of the year.

Colorado and Utah coal volumes have been stronger than last year, despite the impact of poor weather across the Midwest earlier this year. Tonnage out of Colorado and Utah mines rose 5 percent and 4 percent in the first and second quarters, respectively, versus last year. We expect this trend to continue for the remainder of the year.

"A projection, by month, of Union Pacific's overall performance goals in the areas of cars-on-line, terminal dwell, train speed, and expected trainmen and engineer employment levels (L600) from September through December of this year."

We do not expect that cars-on-line, train speed and employment levels for train service employees will vary significantly from month-to-month in the remainder of the year. There is nothing in our assumptions for these months that indicates any significant changes will occur. As shown below, our staffing levels anticipate handling a surge in business. At the same time, we expect continuous improvement in terminal dwell, train speed, and inventory levels.

"Union Pacific's plans for achieving those performance goals."

Plans for driving continuous improvement in performance focus on the five critical resources—workforce, locomotives, freight cars, main lines and terminals. Union Pacific continues to make progress in all five areas.

- Union Pacific has hired 15,000 Train Engine &Yard (TE&Y) employees since the beginning of 2002, increasing the net number of TE&Y employees by 13 percent, from 19,631 to 22,215. We expect to graduate approximately 1,900 conductors and 850 engineers in 2007. As of August 31, Union Pacific had approximately 450 furloughed TE&Y employees, amounting to 2 percent of the TE&Y workforce, which provides considerable surge capacity in our network. Hiring has slowed as the number of furloughed employees has increased.

- Union Pacific has procured over 2,000 new locomotives since the beginning of 2002, increasing our locomotive fleet by nearly 25 percent from 6886 to 8,576. Union Pacific is adding 300 new road locomotives to our fleet in 2007. In addition, we are acquiring 144 low-emission units for service in our yards and for local service this year. As of August 31, we have about 200 road locomotives stored, roughly 2 percent of the fleet, which provide additional surge capacity.

- Through our initiatives and working in partnership with customers, we have improved freight car cycle time by 5 percent since August 2006, from 10.3 days to 9.8 days. By turning the freight cars faster, we have reduced capacity requirements in yards and on line of road. As of August 31, we have approximately 20,700 freight cars stored on-line and another 5,000 cars stored on shortline partners to provide additional surge capacity. This is a 42 percent increase over 2006 storage levels.

In addition to the crew, locomotive and freight-car surge capacity described above, additional capacity on our main lines and in our terminals has been created by operational improvements, such as further development of our Unified Plan and full implementation of the Customer Inventory Management System. Capital projects also increase the physical capacity of our railroad locations.

Unified Plan: In our response to last year's peak season letter, we provided an overview of our Unified Plan. This fresh-look approach to our operations produces a more efficient transportation plan and generates capacity by making better utilization of resources and track space. We continue to operate more point-to-point trains and to focus on network simplification, workload reduction, train balancing, and interline management.

The Unified Plan continues to improve network efficiency. Since 2005, the number of total switch events was reduced by nine percent and total work events were reduced by 23 percent. Year over year, through-freight train starts have been reduced by five percent. These improvements create additional capacity in our terminals and corridors.

Customer Inventory Management System (CIMS): CIMS is a car demand management process that matches the flow of rail cars to and from customer locations with the track capacity at those locations. This balance means fewer cars in rail yards, which in turn decreases terminal dwell time, reduces switching and congestion, and improves throughput. Year to date, average switch car dwell time across the entire UP network has been improved by 10 percent from 27.9 hours in 2006 to 25 hours.

Capital Projects: Union Pacific's $3.2 billion capital plan for 2007 is 17 percent higher than the $2.7 billion we spent on capital in 2006.

Here are some of the significant capital expenditures Union Pacific is making this year to accommodate increased demand.

- The Sunset Corridor – The work on this project between the Los Angeles Basin, El Paso, TX, and southern markets remains a high priority. In 2007, Union Pacific committed $260 million in capacity and an additional $40 million in support facilities in this corridor, although we have experienced delays due to permitting and regulatory issues in Arizona. We expect to be able to add 39 miles of second main track this year and we are performing additional grading as well. The accelerated timetable calls for completion by 2011, but accomplishing this will depend on resolving the regulatory issues in Arizona in a timely manner. Improvements to specific terminals along this route are described separately below.

- LA Basin – Union Pacific is in the process of extending switching tracks used to support the ICTF Intermodal Terminal. Additional track upgrades in the area will increase capacity.

- West Colton Terminal – A new group of bowl tracks is under construction.

- Tucson Terminal – Added two sidings, and lengthened four yard tracks.

- Arizona – Additional staging tracks were added in Casa Grande and Tempe.

- El Paso Terminal – Rehabilitation of the River Yard, construction of an International Yard and River Yard lead.

- San Antonio Rail Yard – Additional capacity was added to facilitate switching auto carriers.

- Salt Lake City, UT Intermodal Facility – New greenfield intermodal ramp completed in 3rd quarter 2006 at a cost in excess of $83 million.

- Marion, AR – Additional switching tracks and 850 parking slots were added in October 2006, and an additional 650 parking slots will be completed in October of this year.

- Powder River Basin/Central Corridor – The new 23-mile third main line on the north end of the Joint Line is nearing completion. A 21-mile fourth main line near Logan Hill is scheduled to be completed by January 2008, except for the installation of several crossovers. UP has completed a new third main track traversing North Platte Yard. UP added 38 miles of Centralized Traffic Control on its Overland Route in eastern Nebraska, part of a 97-mile CTC project in that area. Combined with CTC completion in eastern Iowa, Union Pacific will soon have a double-track CTC route all the way from the SPRB mines to Chicago.

- The Gasconade Bridge between Kansas City and St. Louis, a bottleneck on the key coal corridor for both the SPRB and Colorado, is being double tracked. Additional process and technology improvements are being employed along with this extensive capital investment to improve performance in this key corridor. For example, new processes for handling wheel change-outs at North Platte allow us to handle an additional 750,000 tons of coal annually. Many other capital projects have begun but will not be completed in this calendar year. Construction is well underway on a higher capacity, $43 million Boone, Iowa High Bridge, slated for completion in October of next year. Additionally, UP is working with the receivers and the mines to improve the efficiency of the coal supply chain by encouraging the mines to complete the twenty-four additional staging tracks that CANAC recommended be added in the South Powder River Basin between 2006 and 2012. We are also working with receivers to implement electronic notification of estimated train delivery and release times to reduce dwell times and increase velocity.

- Ethanol – UP invested more than $20 million in capacity improvement in ethanol-originating areas in 2007. In order to manage the growth of ethanol facilities on its network, UP has implemented guidelines for new facilities that promote good service performance for the ethanol customer while protecting throughput in each corridor for all other customers. In addition, an employee has been specifically assigned to assist ethanol producers in locating their facilities and developing appropriate rail infrastructure. In Dallas/Ft. Worth, Union Pacific provided a short-term unloading location during construction of a permanent unloading facility that will open in October of this year and will have the capability to unload an eighty-car unit train in twenty-four hours. Additionally, UP invested $5 million to triple the capacity of the Selby, CA, unloading terminal from ten cars to thirty cars.

Additional Capacity Enhancements

In addition to making capital improvements, Union Pacific is also enhancing its capacity through improvements in processes, organization, and technology. Additional examples in the latter categories include:

- UP is improving response management, which reduces the time to respond to and correct episodic problems that slow traffic in key corridors.

- Automated Gate Systems were added to Global I and Global II in the Chicago area to reduce the time that trucks spend in the intermodal facilities.

- Total Car Management System has improved our ability to get cars to the customer on time.

- Critical initiatives are being advanced in the areas of simulator training; automated crew calling; management of distributed power; remote diagnostics, wayside detection, premium track components and ultrasound testing; signal system upgrades; and Computer Aided Dispatch upgrades.

Major intermodal terminal projects are under way or scheduled but will not be complete during 2007. These projects will add future capacity to our network, subject to Union Pacific's ability to fund these projects and to work through regulatory and permitting issues. These include:

- San Antonio Intermodal Terminal – Construction started in August 2007 and is slated for completion in November 2008 at a cost in excess of $90 million.

"Union Pacific's plans to communicate these steps, goals and plans to customers."

This letter will be placed on our website. Union Pacific will, as it always has, continue to provide information on our website regarding our performance and plans. Since we sent our last year's peak season plan letter to the Board on July 17, 2006, we have posted on our website five letters to customers from Jack Koraleski, Executive Vice President Marketing & Sales, discussing our plans and challenges. This is in addition to numerous other communications via press releases, as well as customer-specific communications and daily ongoing direct contacts by our Marketing and Sales staff.

"Union Pacific's capital plans for increasing capacity and critical infrastructure needs."

Even with this unprecedented level of investment in new capacity, there is still additional demand for new capacity on our railroad. The principal constraints on funding these projects are our ability to earn adequate financial returns, local permitting delays, and the practical limits on new construction on a very busy railroad.

Union Pacific has made substantial investments in growth capital during the last few years because we were confident of our ability to improve our returns to justify these high levels. As we look ahead to 2008, our plans for investing in additional capacity are uncertain due to today's regulatory and legislative climate. The Board's recent proposal on the calculation of the industry's cost of capital, its new regime for rate regulation, and the reregulation legislation introduced in Congress, if adopted, will compel us to reconsider our future investment policies.

The Board's recent proposal for rate regulation will adversely affect our revenues to an undetermined degree. The STB's action will lead to lower rates for some shippers, thereby depriving the railroad of the very capital we will need to invest in new capacity. Suppressing rates is the same as suppressing investment.

This will be compounded by the Board's new calculation of cost of capital, which we believe is mistaken, both technically and from a public policy perspective. The new calculation establishes a CAPM level below similar calculations for railroads by many state regulatory agencies and below the DCF calculations of other federal regulators. This will force a reduction in Union Pacific rates as calculated under both the SAC methodology and the Board's new rate regulation rules, and it will increase the amount of traffic subject to rate regulation. Its long-term effects could be even more damaging to the railroads, depending on how it is implemented in future years. Union Pacific will elaborate on these concerns in upcoming comments in that proceeding.

Much more serious is the proposed legislation in Congress to reregulate freight railroads, which would essentially establish federal price controls and shift railroads to a cost-plus rate regime that ignores the market and penalizes efficiency. If passed into law, these changes would undermine capital expansion and would make maintaining our network more difficult. They would also mandate operating requirements that would introduce operating inefficiencies while simultaneously requiring better service. This legislation would undo much of the progress our industry and company have made during the last twenty years.

Union Pacific is a publicly owned company. The owners of the Union Pacific (our shareholders) have a fiduciary responsibility to ensure that management will operate the Company in a profitable manner and make prudent decisions regarding future capital investments. As such, the shareholders of Union Pacific would not allow management to invest capital in something that has an unreasonably low return imposed on it. Shareholders would demand the Company reduce capital spending. Ultimately both debt and equity investors will put their money outside the rail industry where the free market system is allowed to efficiently allocate capital to companies that provide the greatest returns.

Our nation is facing an infrastructure crisis. Bridges, highways, airports, and ports are being stretched beyond their limits. The railroads' need for capacity enhancements is implicit in your requests for our investment plans and is widely recognized. Replacing an aging, existing infrastructure alone will require significant expenditures in the years ahead. What we need before we can prudently invest in the capacity our customers want and our nation needs is some assurance that we can earn revenues justifying new investments and replacing aging infrastructure.

New capacity cannot be created without adequate revenue and returns. Either the private sector is able to earn a rate of return sufficient to fund new investment, or the government must pay the cost itself. If neither invests, the rail industry's contribution to moving this country's freight will diminish.

Our company has demonstrated that it will invest in new capacity when the market demands it and the returns justify it. It would be tragic indeed if, at just the time the freight railroads are finally approaching a point where the financial returns justify new investment, government policy changes would stop growth potential for a significant component of our country's infrastructure.

Sincerely,

Jim Young

CC: The Honorable W. Douglas Buttrey
The Honorable Francis P. Mulvey