



BUILDING AMERICA®

March 28, 2018

The Honorable Ann D. Begeman, Chairman
Surface Transportation Board
395 E Street, SW
Washington, DC 20423-0001

The Honorable Deb Miller, Vice Chairman
Surface Transportation Board
395 E Street, SW
Washington, DC 20423-0001

Dear Chairman Begeman and Vice Chairman Miller:

Thank you for your March 16, 2018, letter requesting information regarding the status of and outlook for rail operations across our network, as well as our comments on issues raised in letters the Board recently received from the National Grain and Feed Association (NGFA) and the Alliance of Automobile Manufacturers (Auto Alliance). For your ease of reference, I address below each of your questions in the order you raised them.

As I discussed with each of you in meetings earlier this month, Union Pacific is currently experiencing some service challenges across our network. Rail car inventory levels began to rise last summer, which contributed to increased cycle times. Customers responded to sluggish service, in turn, by adding more cars to the network. We are working aggressively to break this cycle, including flooding the network with additional resources and taking a series of other steps designed to improve system fluidity and velocity.

In addition to deploying more resources, we are developing and implementing operating strategies to improve rail service. We are particularly focused on reducing rail car inventory on our network. Elevated rail car inventory creates additional congestion at yards, terminals, and sidings, which reduces velocity and increases human and locomotive resource consumption. We are placing increased focus on executing existing service plans and modifying them as necessary to reduce inventory and improve fluidity. We are also intensifying communications and evaluating opportunities to bypass congested interchange locations with our Class 1 interchange partners to improve interchange fluidity. At the local level, we are increasing local train frequency to ensure we are spotting and pulling cars in a timely manner. We are also adding jobs to support yard and terminal fluidity. At the network level, we are focused on train-plan discipline. Running trains as scheduled helps ensure locomotive and crew balance, which allows us to more efficiently use available resources.

We are engaging and communicating proactively with our customers to ensure they know we take their concerns very seriously and are committed to improving service.

Our number one priority is to stabilize service and reverse the downward trend. We cannot predict how soon our ongoing efforts will take hold and may face unexpected challenges in the coming months. However, we are fully committed to deploying the resources necessary to restore network fluidity and velocity, and to safely and efficiently serve our customers.

Locomotive Availability

Your letter asks for information concerning Union Pacific's locomotive fleet, specifically our road locomotives. We are increasing our active locomotive fleet currently comprising 5,709 active high-horsepower locomotives, which are typically road locomotives, and approximately 313 high-horsepower locomotives in stored serviceable status. We have reactivated approximately 500 high-horsepower locomotives since mid 2017, including 100 since early February. We are continuing to return stored high-horsepower locomotives to service at a rate of approximately 25 per week. In addition, our 2018 capital plan provides for acquiring 56 new high-horsepower locomotives.

Your letter specifically requests information regarding available stored locomotives versus historical norms. The number of available stored locomotives has varied in recent years, from a high of 1,435 high-horsepower locomotives in storage in May 2016, to 1,123 in storage in January 2017, to the current level of 313 locomotives. The number of available stored locomotives has declined as we have reactivated more of our stored serviceable fleet.

Employee Resources

Your letter asks us to discuss current employee headcount and 2018 hiring plans. Union Pacific is deploying additional human resources across our network. We have called all our previously furloughed train, engine, and yard (TE&Y) employees back to service. We have also increased the training pipeline. Our plan is to hire 2,100 or more TE&Y employees in 2018. We currently have 1,250 crew members in training and plan to graduate approximately 200 trainees per month between March and July. Despite our efforts, we have been falling short of our hiring goals due to tight labor market conditions. To help address the shortfall, we are offering signing bonuses to make these jobs even more attractive, offering retention bonuses to our TE&Y employees who are approaching retirement, and exploring additional measures to raise TE&Y headcount until service levels are restored. We are also planning to hire approximately 610 mechanical employees and 275 engineering employees in 2018. We are deploying robust promotional and outreach strategies to attract candidates to all of these positions.

Your letter specifically requests information regarding recent train recrew rates versus historical norms. Our recrew rate has varied in recent years. It was 6.1% in 2015, 2.2% in 2016, and 3.6% in 2017. In February 2018, the recrew rate was 5.9%. The increased rate as compared with 2016 and 2017 reflects our service challenges.

Your letter also asks about the adequacy of managerial personnel in the field. We plan to hire approximately 250 operating managers for our Transportation, Engineering, and Mechanical departments in 2018. The total includes external hires and current employees transferring to management. In 2014, when we were recovering from the challenges of unusually severe winter weather, we shifted managers to locations that would benefit from additional attention. Those measures helped. We are doing the same in the present circumstances.

Local Service Performance

Your letter asks us to discuss local service performance. One of our primary measures of such performance is our industry spot-and-pull average. Industry spot and pull measures an aspect of our performance that is one of the most visible to our customers: whether we arrive at their facilities and switch cars when we say we will. In 2016, our system-wide average was 96%. Currently, our system-wide average is 89%. As discussed above, focusing on executing industry spot and pull plans is a key part of our service improvement efforts.

Your letter also asks us to discuss specific yards or locations where performance is trending below historical norms. Our data show our recent performance has been below historical norms at all our

major hump yards according to our standard performance measures, such as industry spot and pull, terminal car dwell time, and on-time departures. We are experiencing the most severe challenges in our Southern Region, and particularly at locations in Texas and Louisiana, as discussed in more detail below. Again, as discussed above, a focus on reducing inventory by improving all aspects of terminal performance is a key part of our service improvement efforts.

Demand

Your letter asks us to discuss our expectations for service demand in 2018. At our fourth quarter 2017 earnings release, we publicly stated we expected volume increases in the low single-digit range for the first quarter and the full year 2018. As shown in publicly available data since then, we have seen a 1.6% year-over-year carload increase through March 24, 2018. The issues we are experiencing will affect our ability to serve customers in 2018. Even so, we are working aggressively to minimize customer impacts as we move to restore service to the levels our customers have come to expect.

Communication

Your letter asks us to describe initiatives to communicate proactively with shippers regarding service issues. Union Pacific has an ongoing and active communication process in place to inform customers of key system conditions, service outages, and other performance information. Our Marketing & Sales and Customer Care & Support representatives have frequent interactions with our customers to discuss their needs and our performance in meeting those needs. In addition, our website provides a central source of information regarding local, regional, and network-wide issues, including weather events, maintenance and construction projects, and other occurrences that may disrupt or delay shipments.

Beth Whited, our Chief Marketing Officer, posted a letter to customers about our network-wide service issues on February 15, 2018. A detailed update discussing our efforts to address our service challenges was posted on March 15. We will continue to provide these detailed updates on a regular basis.

We have also established processes for tighter coordination between our Customer Care & Support team and Operating teams. These include setting up a special team focused on customer issues in our Southern Region and additional daily communication to highlight pressing customer issues.

Engaging in discussions with specific customers about adjustments to rail car fleets is another of our efforts to reduce rail car inventory and improve network fluidity. Our customers provided outstanding support in connection with past efforts to address service issues, such as performing more car blocking as we recovered from the impacts of severe winter weather in 2014. We are exploring the possibility of adopting similar measures in the present circumstances.

Capacity Constraints

Your letter asks us to discuss whether any specific locations on our network are experiencing sustained congestion due in whole or part to capacity constraints and what actions are being taken to alleviate congestion. We believe our network capacity is adequate overall, but we face capacity constraints in the Southern Region, where we have experienced significant traffic growth. Approximately 80% of our growth capacity budgeted this year is targeted at the Southern Region. Our most significant project in the region is constructing our Brazos Yard, which began in January. This \$550 million yard represents the largest capital investment in a single facility in our history. The yard is located at a highly strategic point in Texas and will provide critical capacity supporting a wide variety of traffic, including petrochemicals, plastics, consumer goods, and cross-border traffic. We are also investing in our yards in

Eagle Pass, West Texas, Dallas, and Livonia, and in expanding track capacity in Houston proper. We have also taken several immediate steps to improve service in the Southern Region. We have modified transportation plans to shift manifest classification work from our main switching yards in Texas and Louisiana to regional yards and other system yards until the work can be shifted to Brazos Yard. We also created a special team to focus on rail car inventory control and strategies for reducing the amount of switching we perform in the Houston area.

Response to NGFA and Auto Alliance Letters

Finally, your letter asks that we comment on issues raised in letters the Board received recently from NGFA and the Auto Alliance. Both letters complain our service is falling short of customers' expectations, which we acknowledge. As the letters illustrate, our service challenges are not confined to one specific category of customers or region of our network. In some instances, our challenges are compounded by factors beyond our control, but we are focused on deploying resources and implementing operating strategies to address the factors within our control. For example, for our auto customers, we are paying particular attention to our loaded multi-level dwell at the key terminals that support our auto network. We are also focused on our resources to supply empty equipment to auto customers' facilities and to key interchange locations. For our grain and feed customers, we are having daily calls to coordinate their unit trains into the key landing slots, and for export traffic we are giving priority to specific trains to meet ship arrivals.

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I appreciate this opportunity to provide the Board with information about Union Pacific's response to our current service challenges. We will remain engaged proactively with the Board and communicate intensively with our customers as we work to improve service on our network.

Sincerely,

