



July 9, 2004

Mr. Melvin F. Clemens, Jr.  
Director, Office of Compliance and Enforcement  
Surface Transportation Board  
1925 K Street, N.W., Suite 780  
Washington, D.C. 20423

Dear Mr. Clemens:

Union Pacific Railroad Company offers the following information in response to Chairman Nober's June 9, 2004, request for information about our plans for the fall shipping season, which typically includes a "Fall Peak." In the interest of maintaining communications with our customers, we will post this response on Union Pacific's website.

Chairman Nober's letter requests information on three topics.

**1. The steps UP is taking to ascertain demand for and prepare for the "Fall Peak."**

Each year Union Pacific develops detailed forecasts of transportation demand for the following year and updates those forecasts quarterly as the year unfolds. Because of current service difficulties and strong demand, Union Pacific has been refining its forecasts more frequently.

In preparing and updating forecasts, Union Pacific considers extensive communications with customers regarding their shipping requirements. We also consider public and private forecasts of a number of economic and market indicators, such as housing starts and auto sales, and take into account changes in shipping patterns that shippers identify during regular contacts. This forecast process is as accurate as any forecasting methodology can be, but the forecasts can be overtaken by shifts in the economy and in our customers' business as happened this year.

In each of the first six months of 2004, we carried record carloads. In fact, in the second quarter of this year, we handled more carloads (2.37 million) than in any quarter in the history of the railroad. Union Pacific expects demand to continue to grow into the fall. In particular, we expect demand for intermodal transportation from West Coast ports to increase, as normally happens during the fall.

**2. What UP's performance goals will be for at least the next 120 days, with a view toward meeting the service demands for the "Fall Peak."**

Union Pacific's goal has been to attain steady improvement in performance as measured by key metrics: average system velocity, terminal dwell time, and total car inventory. That remains our goal. We have taken many actions to achieve improvements, but to date have managed only to stabilize our system and achieve modest improvement. Therefore, as outlined below, we are taking further steps to attain our objective in the face of still-growing demand.

John J. Koraleski  
Executive Vice President Marketing & Sales

UNION PACIFIC RAILROAD

### 3. What is UP's plan for achieving these goals?

As we have reported throughout the year, Union Pacific established very aggressive hiring targets for 2004. We set our targets to provide enough train and engine employees for the expected volume of traffic this fall. In addition, Union Pacific recently increased its planned hiring for the latter part of 2004 by some 1,000 employees, primarily to build employee ranks for anticipated 2005 demand.

As our conductor ranks are replenished, our follow-on challenge is to train more engineers. This is attributable to the fact that railroads must first hire enough train service employees to release conductors who are already trained as engineers into engine service and to release other conductors for engineer training. The engineer training process takes up to six months, and even longer in some of our more challenging operating territories.

Union Pacific already has moved large numbers of conductors into engineer training. We are taking additional steps to augment the supply of engineers for the fall. We are temporarily relocating engineers from areas of surplus to areas of shortage. Where we have reached arrangements with our labor organizations and engineers are not available, we are using management engineers. With these efforts, we expect to make progress toward service recovery; but, in the face of strong demand, our engineer supply will likely be insufficient through the fall on the northwest part of our system and episodically in other locations.

As previously reported, Union Pacific has scoured the marketplace for both new and operable leased locomotives. Over the past nine months, we have added a little over 500 locomotives to our fleet with an additional 300 units expected through the end of the year. Our Board of Directors recently approved a plan to accelerate delivery of 125 additional new locomotives from 2005 to the last five months of 2004. Thirty of those locomotives will arrive in August and September.

The steps Union Pacific has taken to date have helped to stabilize our performance, but at levels below where we need to be to meet service demands. We had hoped that increases in our critical resources would be enough to restore our velocity and that new steps to reduce our volume would not be necessary. However, our actions have been overshadowed by increases in volume to record levels, hampering efforts to make progress toward service improvement.

Looking ahead, we expect demand to continue to increase, with peak season expected to be at record levels as well. Because of this, Union Pacific must control the volume of business in several key corridors and terminals by limiting carloadings and train operations. Therefore, we are taking additional steps to protect our system from additional congestion and allow us to improve our velocity and service efficiency.

These steps include:

- Creating an allocation system for certain shipments to protect critical terminals from overload,
- Temporarily limiting the number of rock and aggregate materials carloads handled in Texas,
- Consolidating selected automobile and chemical trains,
- Regulating the volume of selected agricultural commodities, and
- Capping the number of incremental train starts.

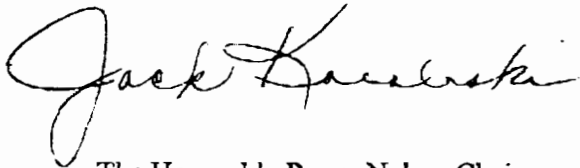
Union Pacific is aware that in some instances alternative methods of transportation will be a challenge, given the huge demand and strain on all forms of freight transportation today. However, we must take steps to limit the volume on our system in order to restore our system velocity.

Union Pacific is closely monitoring traffic to and from Southern California, particularly the growing intermodal traffic through the Southern California ports. Union Pacific's Sunset Route between Los Angeles and El Paso has no excess capacity. Our plan is to add 53 miles of second main track to that line this year. We have an alternative route between Los Angeles and Chicago, via Salt Lake City and the Central Corridor, but this route has only limited additional capacity. We are balancing and reallocating traffic between the two routes to assist in handling peak traffic this fall. We are studying additional capacity expansions that we will pursue if we can generate adequate returns on investment .

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Chairman Nober also asked how we will communicate with our customers about our service for the fall. Union Pacific will continue to post periodic, public reports to our customers on its website. We are in regular contact with all of our largest customers and are contacting those customers who will be most affected by our plans.

Sincerely,



cc: The Honorable Roger Nober, Chairman  
The Honorable Francis Mulvey, Vice Chairman  
The Honorable W. Douglas Buttrey  
The Honorable Betty Monro  
Mr. Edward R. Hamberger