

# SWARS Semi-Annual Meeting

## “Green Shoots – Taking Roots”

### *Rail Regulations: Bud or Bloom?*

Mike Hemmer, Sr. VP-Law & General Counsel – October 1, 2009



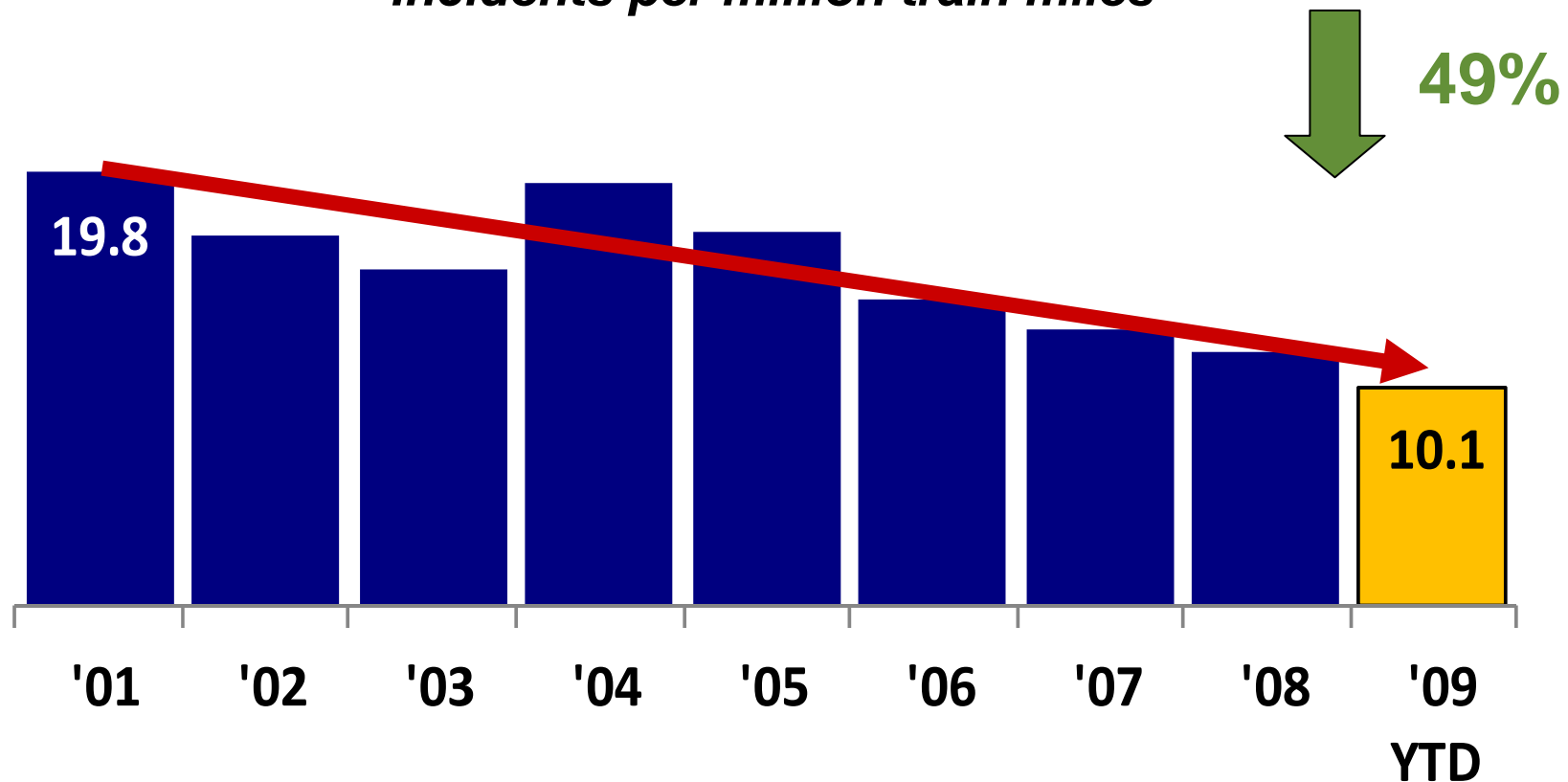
**BUILDING AMERICA®**

# What Does America Want From Its Railroads?



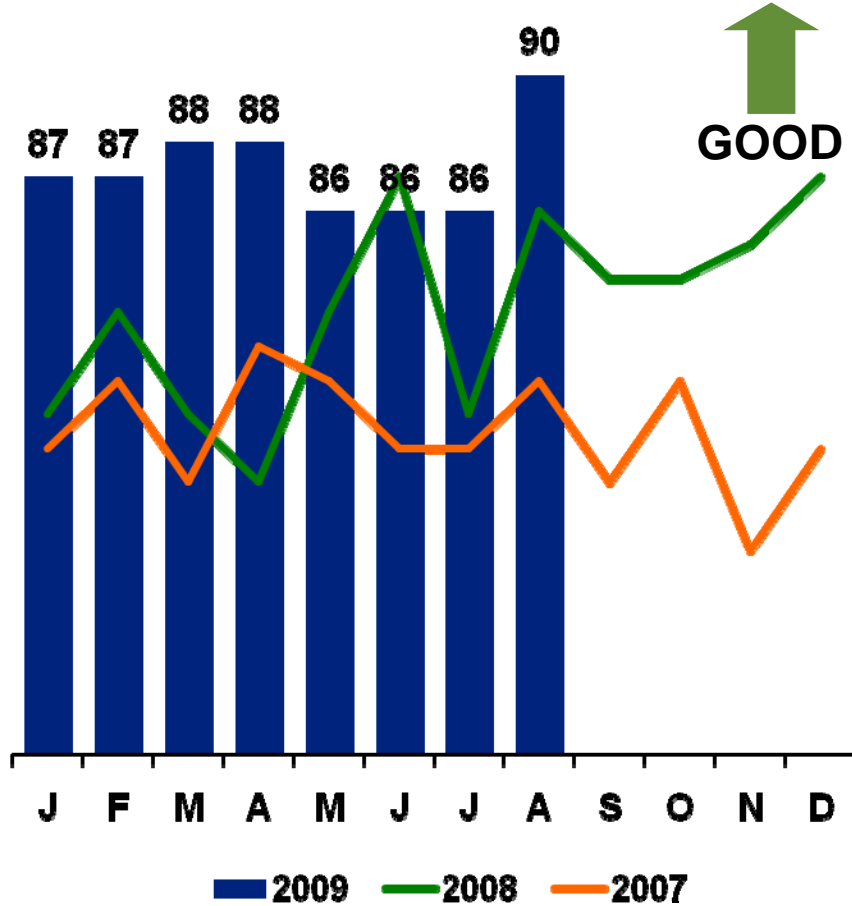
# Safe Transportation

## UP Cut Derailments in Half Since 2001 *Incidents per million train miles*

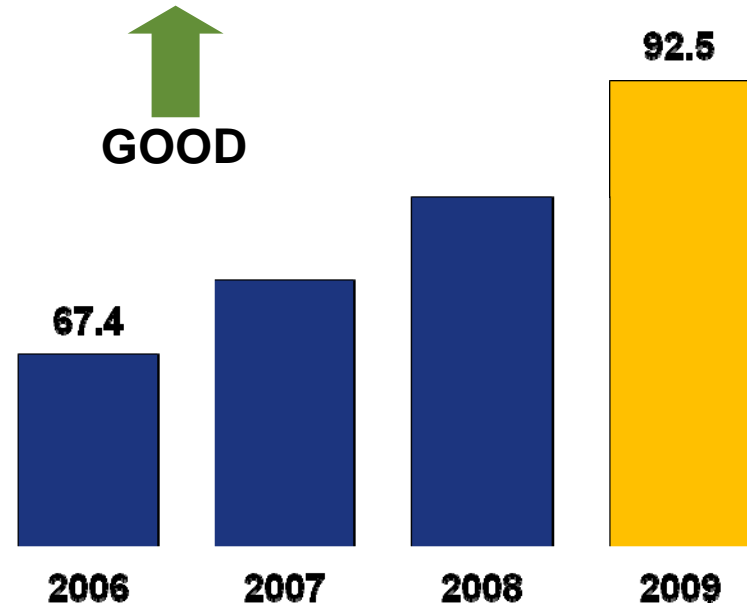


# Reliable Service

## UP Customer Satisfaction



## Service Delivery Index \*



\* Includes early delivery



# Environmental Benefits

- UP can haul one ton of freight 830 miles on one gallon of diesel fuel
- Rail transportation releases one-third the emissions of trucks
- One train takes up to 300 trucks off congested highways



UP Fuel-efficient Road Locomotive



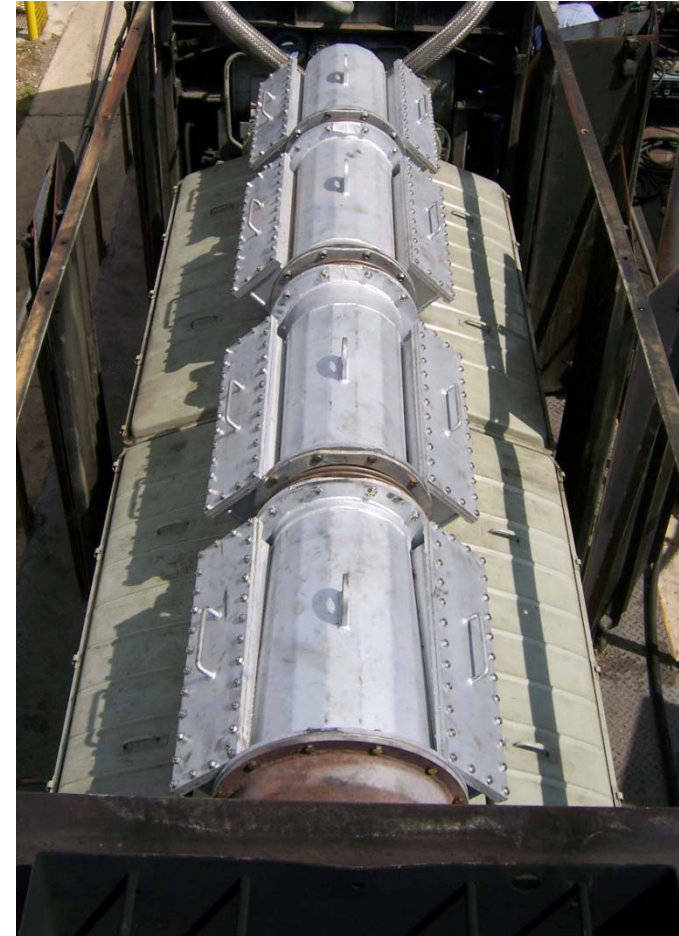
UP Genset Yard Locomotive

# \$10 Billion of Positive Train Control With Few Benefits

- **FRA cost estimate**
  - Installation will cost between \$5.7 billion and \$5.9 billion (2009 dollars for 7 Class 1s and 22 commuter operators)
  - Ongoing maintenance and operations will cost \$860 million annually
  - NPV of all costs (7%, 20 years): between \$9.9 billion and \$10.1 billion
- **FRA benefits estimate**
  - Maximum potential safety benefits will be \$90 million annually
  - No identifiable operational efficiency benefits from this generation of PTC
  - NPV of all benefits (7%, 20 years): \$650 million
- **NPV of FRA-specified costs exceeds NPV of benefits by a ratio of 15.4 to 1**

# Billions of Dollars for Emissions Reductions, With Lower Fuel Consumption

- EPA requires Tier 4 locomotives in 2015
- More expensive – add \$1.5 billion (est.) to UP purchases
- Higher operating costs
- Higher maintenance costs
- 6-7% increase in fuel consumption
- More GHG emissions!



*Retrofitted Oxidation Catalyst Device*

# Hundreds of Millions of Dollars of Additional Safety Costs

- **TIH handling and training costs**
- **Emergency respirators that are much more expensive than those in Congressional offices**
- **Conductor certification costs**

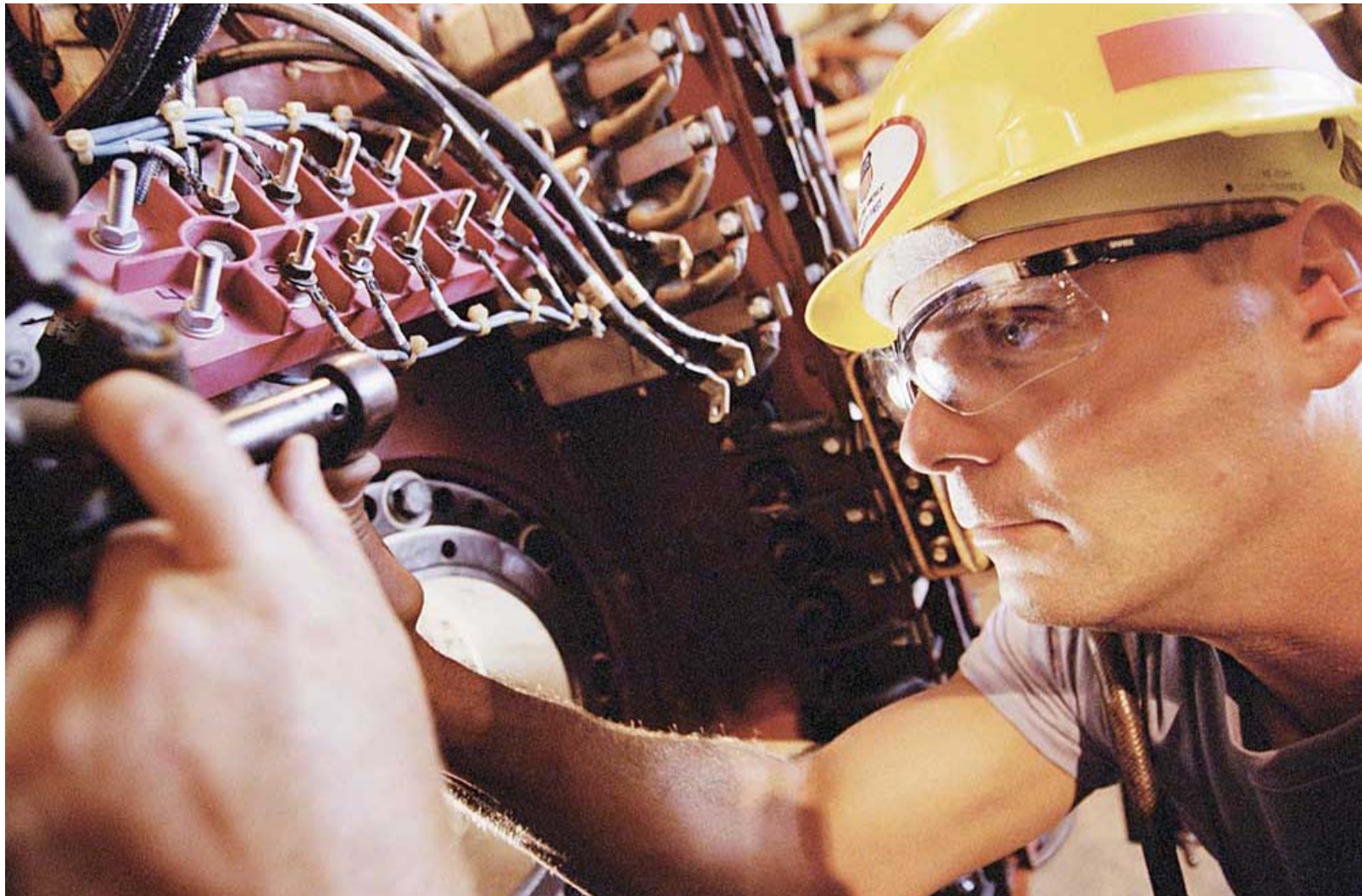


# Billions of Dollars of Taxes That Our Competition Doesn't Pay

	Rail	Trucks	Barges	Pipelines	Air
<b>Infrastructure funding method</b>	Private Industry	Subsidized Trust Fund	Subsidized Trust Fund	Private Industry	Subsidized Trust Fund
Tax recovery period	7 Years	1 Year	1 Year	15 Years	1 Year
Property taxes	Yes	No	No	Yes	No
Sales taxes	Yes	No	No	Yes	No
<b>Employer payroll taxes</b>	<b>20.25%</b>	<b>7.65%</b>	7.65%	7.65%	7.65%



# High-Paying Jobs – Rail Labor in the Top 3 Percent of U.S. Workers



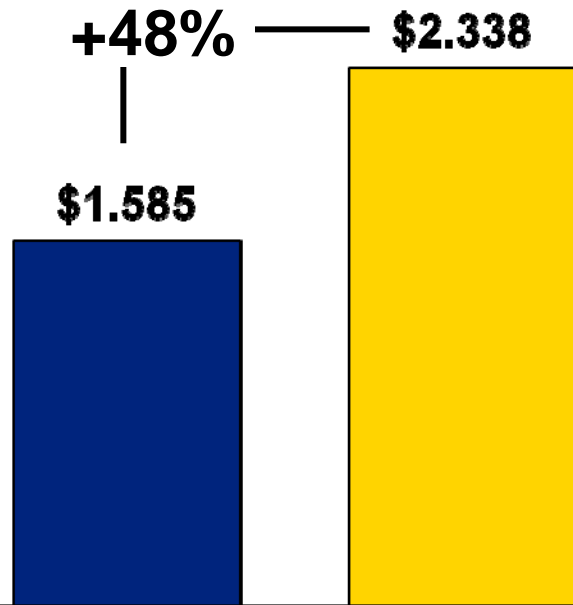
# Capacity for New Passenger Service

## UP Routes Where Amtrak or Other Agencies Seek New Passenger Service With Priority Over Freight



# Major Investment in National Transportation Infrastructure (UP Data)

**Net Income**  
(\$ in billions)



**2003**

**2008**

**Investment\***  
(\$ in billions)



**2003**

**2008**

*\*Includes cash capital, non-cash capital and lease financings*



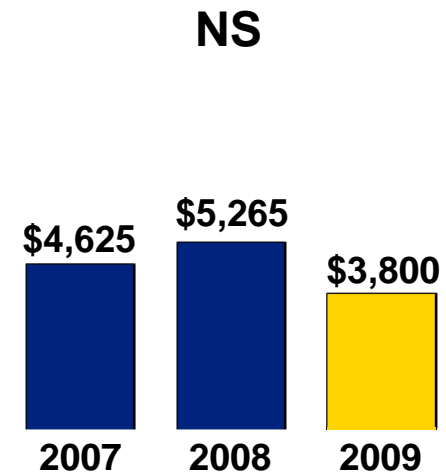
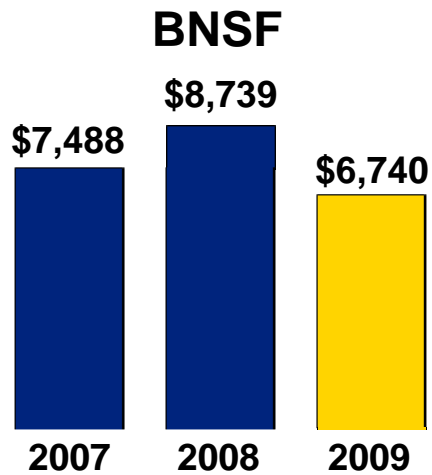
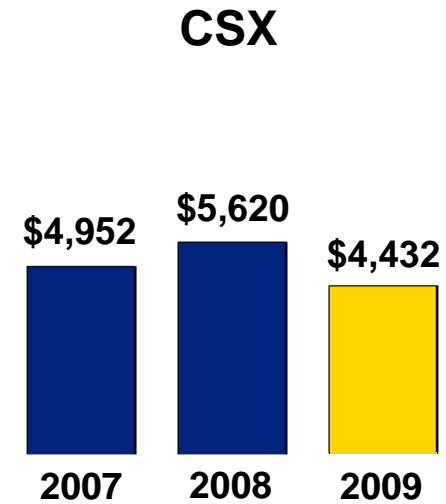
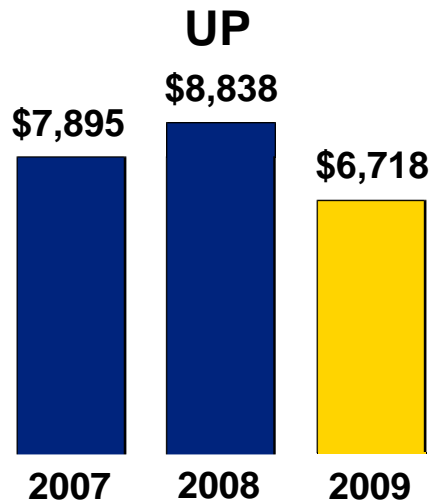
# Cope With Huge Losses In Rail Traffic



Some of our 1,800 stored locomotives

# U.S. Class 1 Railroad Revenue\*

*First Half (000s)*



\*Reported Operating Revenue



# Reduce Rail Revenues by Billions of Dollars Through New Regulations

**Pre-Staggers:  
Bankrupt Conditions**

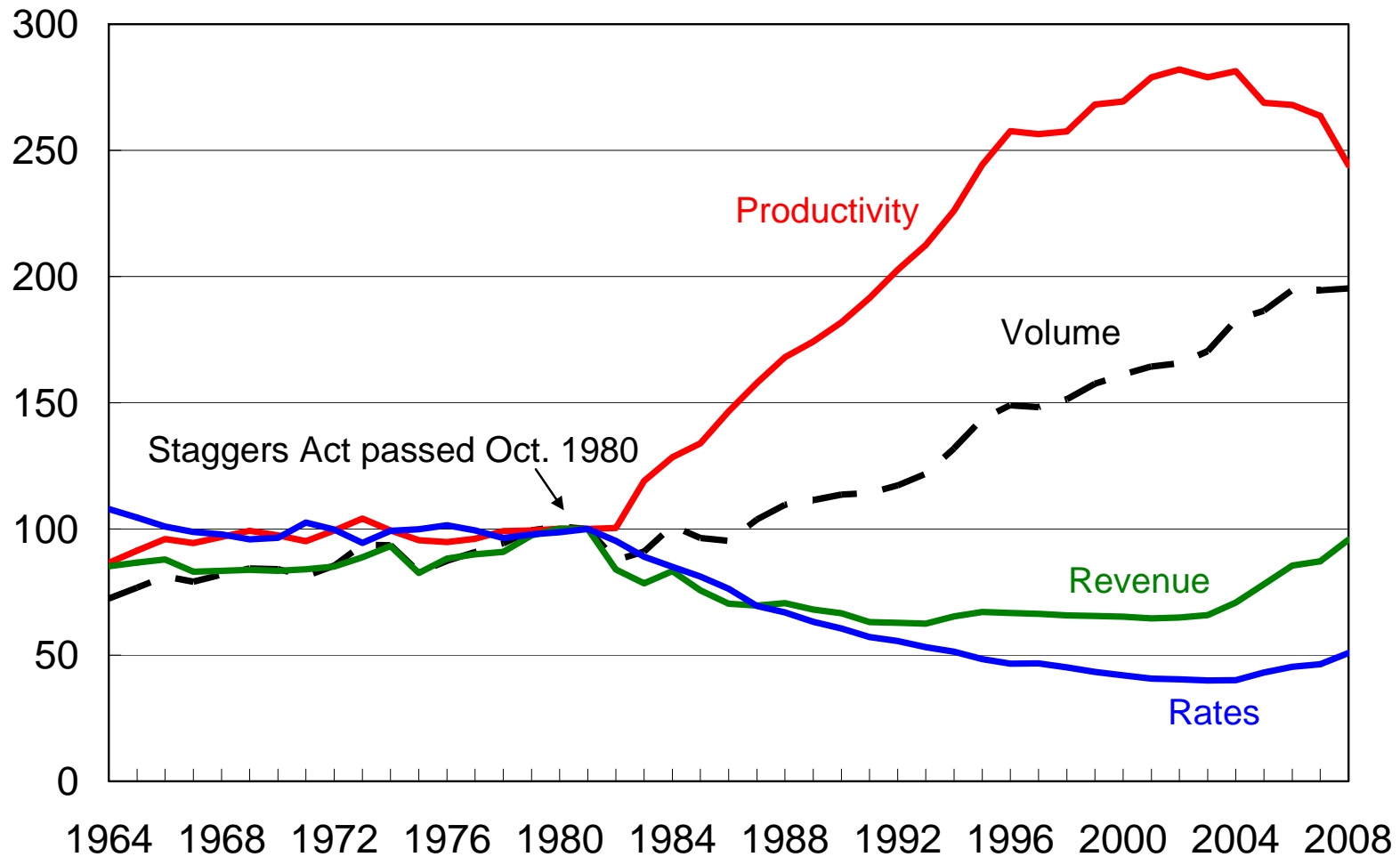


**Post-Staggers:  
Investing in Safety,  
Service & Growth**



# Class 1 Railroad Performance

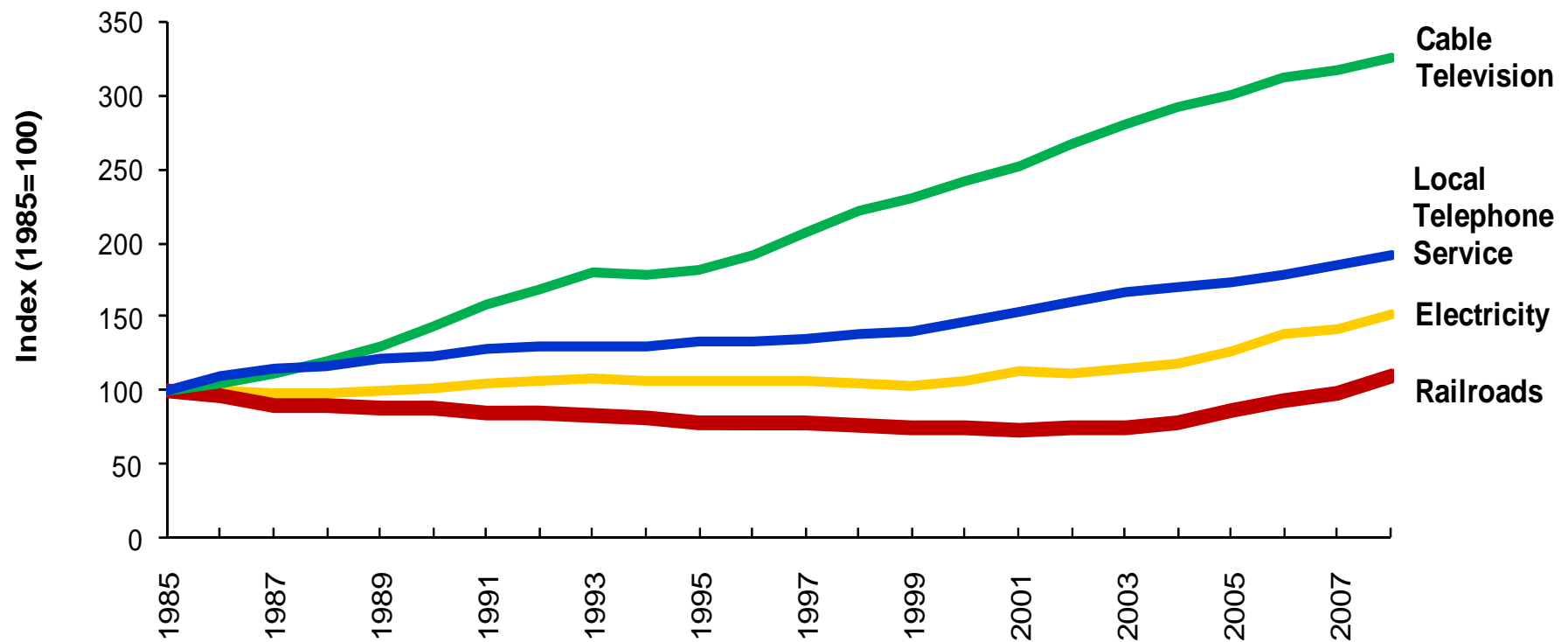
## 1964 – 2008



Rates are revenue per ton-mile; volume is ton-miles. Source: AAR

# Average Prices – Railroads v. Other Industries

## 1985 – 2008



Sources: BLS, EIA, AAR

# **The Number of Dual-Served Shippers Has INCREASED Since the Staggers Act**

- **Regulators preserved competitive service to all shippers affected by a merger**
- **Conrail shared-assets regions created new competition for large numbers of shippers**
- **STB ordered dual service to all new shippers on 4,500 miles of UP tracks in UP-SP merger**
- **Parties created market-based build-ins and build-outs**
- **AAR-ASLRRA agreement permits new dual service to stimulate new traffic**

## The Heart of the Problem:

No one wants to pay for transportation infrastructure, whether publicly or privately funded.



**“The ‘gap’ between transportation ‘needs’ and current investment by all levels of government ranges between \$172 billion annually to *maintain* existing infrastructure and \$214 billion annually to *improve* system performance.”**

**– *National Surface Transportation Infrastructure Financing Commission, “Paying Our Way – A New Framework for Transportation Finance,” Feb. 2009***

**“You can almost predict GDP based on your ability to move stuff.”**

**– Tom Donohue  
President , United States Chamber of Commerce  
Union Pacific Board Member**