Testimony
of
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Committee on Transportation and Infrastructure
Subcommittee on Railroads, Pipelines, and Hazardous Materials
Subcommittee on Highways and Transit

Confronting Freight Challenges in Southern California

Chairman DeFazio, Chairwoman Brown, members of the subcommittee, my name is Bob Turner, and I am Senior Vice President of Union Pacific Corporation. I appreciate the opportunity to be here today to talk about the freight challenges confronting Southern California.

Union Pacific is a long-time citizen of Southern California. Not only has our name been well known here for decades, but our merger with the Southern Pacific in 1996 made us the largest freight railroad serving California. This state is enormously important to Union Pacific; twenty-five percent of all of our freight either starts or finishes in California. In fact, the LA Basin, with over 1,000,000 carloads per year, accounts for about 10% of our entire business. While international container traffic is the most visible business, we also provide a number of critical raw materials for Southern California, including ethanol for California's fuel requirement, finished vehicles for the California market, a wide array of construction and building materials, and the chemicals used to purify the public water supply in this region.

While our business is primarily the safe and efficient movement of freight, we also share tracks with a number of commuter trains in the LA Basin. While commuter rail provides an important resource to commuters and significant public benefits, the timing of commuter travel and the need for coordination of the national freight network, creates the potential for conflict. Amtrak trains on a few routes add more potential congestion.

We have a very healthy and robust relationship with Metrolink and service on the LA-Riverside line has improved substantially in recent years. We work closely with Metrolink to keep passenger and freight moving on time. We also understand that there is great public interest in increased commuter service. However, taking rail capacity from freight to provide rail capacity for passengers is not the answer to America's urban congestion problems, as it would only shift thousands of trucks onto the highways. Freight rail provides enormous public benefits too: reduced truck traffic, enhanced energy efficiency, lower emissions, and essential support of the local communities. The real answer is to grow railroad capacity for both freight and passenger service. This concept was recognized in the recently passed rail safety legislation, which provides additional funds for new passenger capacity, as well as in the stimulus legislation.

The tragic accident in Chatsworth late last year showed the danger that sometimes exists when passenger rail and freight rail operate on the same tracks. We are committed to working with passenger systems, not only in California, but also across our system to implement Positive Train Control to improve the safety and reliability of both systems. However it is important to note that the technology required to operate in real-time is incredibly complex and expensive—perhaps exceeding $6 billion. It will take the cooperation of all of the freight railroads, all of the commuter railroads, Amtrak, and the federal government to meet this very aggressive schedule of implementation at the end of 2012 in Southern California and 2015 nationwide.

Freight railroads invest in their own infrastructure. This is very evident when you look at our investments in the Los Angeles/Long Beach areas during the last five years. I have attached a chart which shows in great detail that we not only have invested significantly in this region, but we have also invested east of here all the way to El Paso and beyond so that the goods destined for California and the goods leaving California will move efficiently and safely to the major terminals across the country. We have very efficient routes from Southern California to the southeast part of the United States and the Midwest, and we are investing in a number of facilities to handle freight once it arrives in those regions. In addition, we have the most efficient north-south route between Southern California and the Pacific Northwest, which keeps hundreds of trucks off a very busy Interstate 5 each day.

As the nation's only privately funded transportation system, operating a 140,000-mile network, railroads must attract vast amounts of private investment to meet the large capital demands necessary to support our infrastructure. In fact, last year, the two largest railroads each spent almost as much to operate, maintain and expand their infrastructure as did the State of California on its highway system. Other modes of transportation rely on government funding to support their infrastructure. Our ability to facilitate this private investment in transportation infrastructure is a tremendous asset and benefit to our country. If we were not able to attract this investment, the government would have to find the billions of dollars necessary to fund our network in addition to those of our competitors (trucks and the inland waterways for barges), or alternatively would have to spend vastly more on highways to handle the business we carry, thereby forcing an even heavier burden on taxpayers.

A recent Department of Transportation study projects total freight transportation demand will increase 92% from 2009-2035, with an 88% increase in demand for rail service during that same time period. Other studies conclude the same thing. Moreover, a September 2007 study (The National Rail Freight Infrastructure Capacity and Investment Study) found that Class I railroads need $135 billion in investment to expand their network capacity by 2035 to keep pace with DOT's forecasted demand. This equates to over $4.5 billion annually for capacity expansion for the next 27 years. Of course, we also need to spend vast amounts to maintain and renew existing infrastructure. Today, on an annual basis, our industry is spending less than 40% of this amount for new infrastructure capacity. We all know that studies that project growth this far into the future may not be 100% accurate, but let's assume, for the sake of argument, these studies are off by 50%. We are still not now able to attract enough investment in infrastructure to reach the level that the nation needs us to invest.

One reason we must spend so much is that we must replace existing assets that have come to the end of their useful life and replace assets destroyed by natural events such as fire, floods, and earthquakes. Let me give you a few examples of these costs, because they are staggering.

Because we operate outdoors, we are constantly battered by Mother Nature, and these costs can be astounding. For instance, in 2005, our Salt Lake City to Los Angeles line in Nevada was destroyed by a flood. To rebuild this asset, it cost us $87 million. In the same year, we spent some $30 million to rebuild our line from Los Angeles to Santa Barbara. That line is used almost entirely by Amtrak and Metrolink. Nevertheless UP paid all of the costs of rebuilding that line in a very short time enabling the prompt return of normal operations. The others using that line reimbursed none of that cost. Similarly, a fire destroyed a large bridge in Sacramento in 2007, and we had to spend $14 million to replace it and we completed it in two weeks. Most recently, we had a mudslide on a line in Oregon that wiped out a significant portion of our railroad. The slide was as wide as a football field and the equivalent height of the Sears Tower. This took months to repair at a cost of over $100 million. All of this must be done using private dollars.

These are some big numbers associated with some big projects. Equally staggering are the day-to-day numbers. For example, Union Pacific wears out two miles of track every day – 365 days a year. At a cost of $450,000 to $600,000 per mile for replacement rail, this adds up very quickly. It costs on average $2.5 million per mile to build new track, and this figure does not included the cost of acquiring land or environmental issues that may need to be addressed. As I mentioned previously, a requirement to install a vital train management system will add to these costs.

Union Pacific is also investing in safety and in the well being of our communities where we operate.

We move freight very safely. Nothing is more important to railroads than the safety of our employees, our customers, and the communities we serve, and our safety record is excellent. From 1980 to 2007, the last full year for which data is available, railroads have reduced the overall train accident rate by 71% and our employee casualties by 80%, with 2007 being a record year for safety. Today, railroads have lower employee injury rates than other modes of transportation and most other major industry groups – including agriculture, construction, manufacturing, and even some types of retail activity.

We are also part of your communities. In 2008 Union Pacific employed over 5,500 Californians in jobs with great pay and great benefits, had a California payroll of over $420 million, purchased nearly $170 million worth of goods and services and donated over $1.7 million to community organizations in this state.

Our investments are making a difference. Our customer survey results show that we are now consistently achieving best-ever results with our customers. This creates value for them and allows them, in tough times, to maintain viability until the economy is on solid footing to grow. We are investing in fuel efficient freight locomotives for both long distance trains and for yard work. We are improving our use of on-dock loading of international goods in the ports. This will not only improve our customer service but also will lower the impact on Interstate 710 as fewer trucks will need to haul containers from docks to near-dock facilities.

California's environmental practices, a go-it-alone mindset on local regulations, and higher than average port fees, make this a relatively difficult and expensive place to do business.

During the last two years, we've seen shippers direct goods that once came through this region to other routes and ports. International trade is very cost-sensitive, and it will typically flow to the lowest cost route. If this is a concerted strategy to divert traffic from this region, that is one thing, if not, in a period of economic uncertainty, this region cannot afford to be the higher-cost alternative.

Streamlining permits for construction and expansion also would reduce the cost of rail expansion and improve rail service. For example, Union Pacific has had a proposal to expand our intermodal container transfer facility on the table for four years. This project is estimated to cost about $400 million and would increase the freight infrastructure in this region while reducing the environmental impact of our facilities on our neighbors.

There are also many opportunities for public/private investments that would enhance the mobility of freight and passengers while reducing congestion on crowded highways. Government should adopt policies that drive freight to the rails, recognizing that the public benefits in doing so are significant. The recently passed economic stimulus bill contained a new transportation program for projects of regional and national significance. This program will enhance the ability of public/private partnerships to move forward and leverage the private dollars that we can bring to the table.

I know this Committee understands that freight rail is vital to the health of this region and our nation. We offer huge societal benefits that need to be maximized, and while we are currently dealing with the economic downturn, we have a great future. I look forward to working with you to fully develop a vibrant rail system in this country.

This concludes my testimony. I will be happy to answer any questions you may have.

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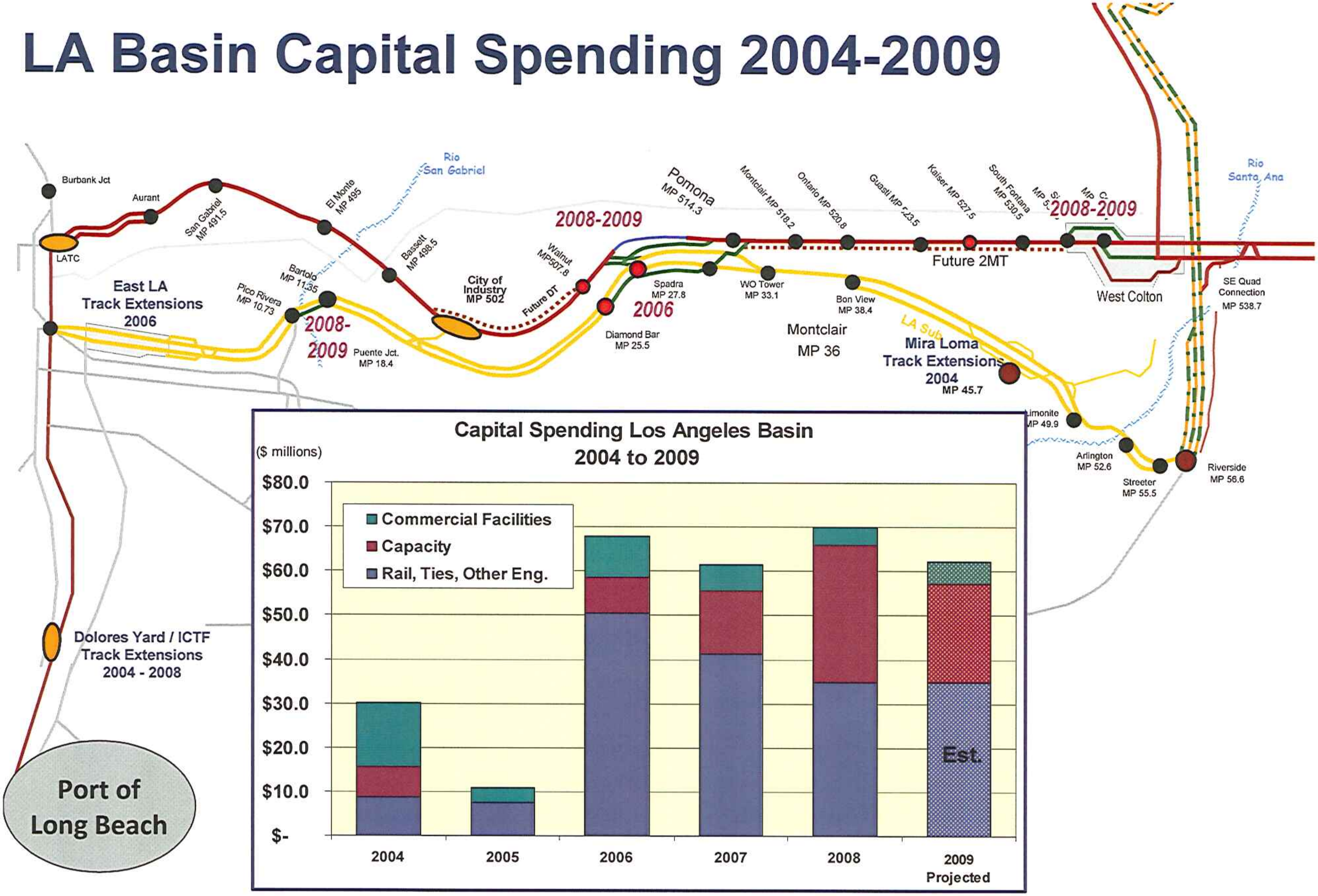
LA Basin Capital Spending 2004-2009



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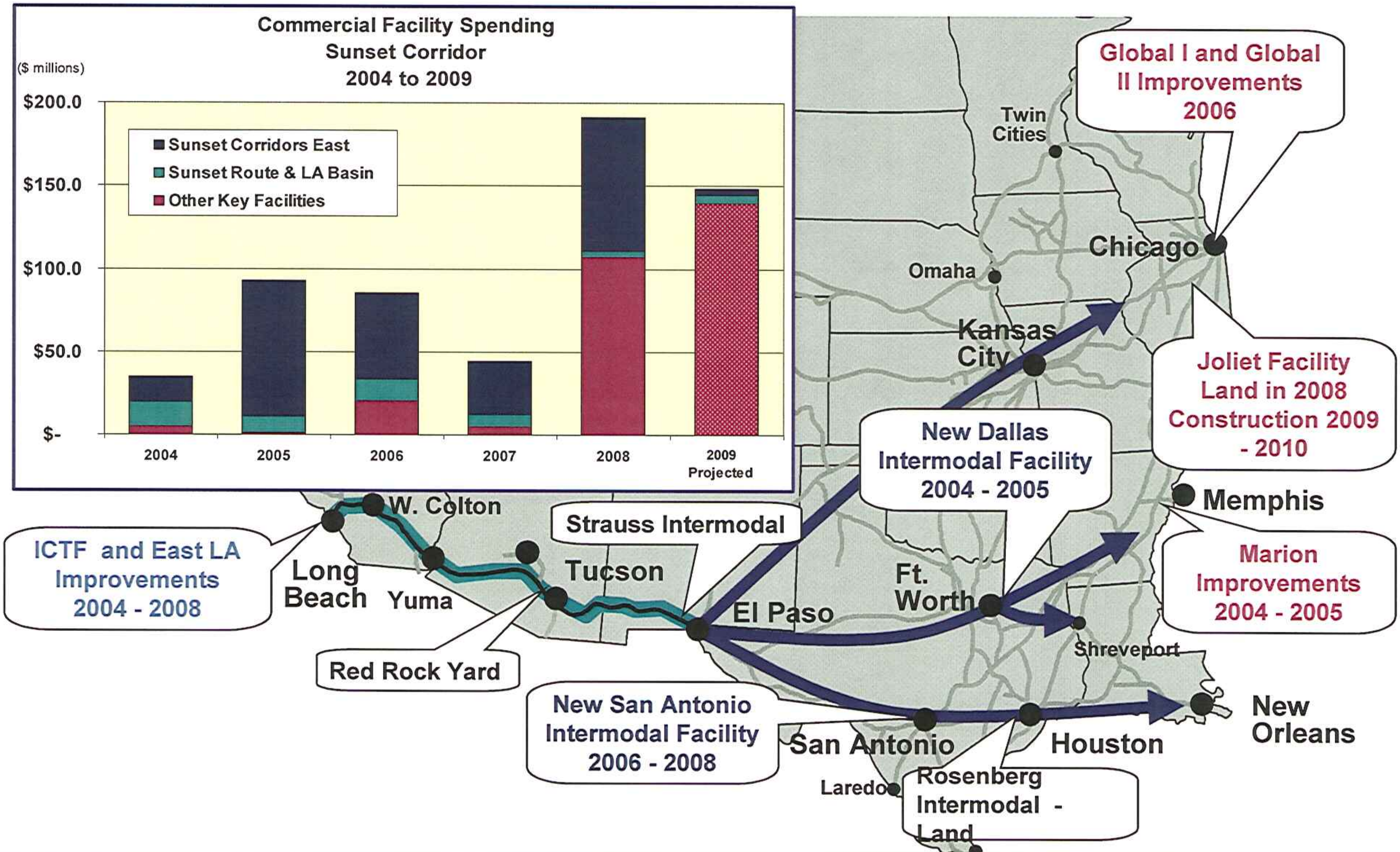
Sunset Corridor Commercial Improvements
2004 - 2009



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US West Coast Fees

Applicable to marine container intermodal loads

	Timing	$/FEU	Who Pays	LA/LB	Oak	Sea/Tac
• ICTF Gate *on dock excluded	In effect	$30*	OCarrier	$ 30	N/A	N/A
• Alameda Corridor	In effect	$ 37	BCO	$ 37	N/A	N/A
• Clean Truck *on dock excluded	Oct '08	$ 70*	BCO	$ 70	N/A	N/A
• LA/LB Infrastructure	Jan '09	$ 30	BCO	$ 30	N/A	N/A
• Lowenthal Bill	Jul '09	$ 60	BCO	$ 60	$ 25**	N/A
• Total				$227	$ 25	$ 0

• LA/LB Incremental to Oakland via UP terminal	$202	
• LA/LB Incremental to Oakland via on dock	$102	(Oakland dray offset by on dock loading costs)
• LA/LB Incremental to Sea/Tac via UP terminal	$227	
• LA/LB Incremental to Sea/Tac via on dock	$127	(Seattle dray offset by on dock loading costs)

Increased on dock in LA/LB is crucial to reduce impact of LA/LB fees by $100/FEU

**Per Port of Oakland, Lowenthal authorizes up to $30/TEU ($60/FEU), allowing Oakland to charge $12.50/TEU($25/FEU). Ports of LA/LB will charge the full $30/TEU($60/FEU).

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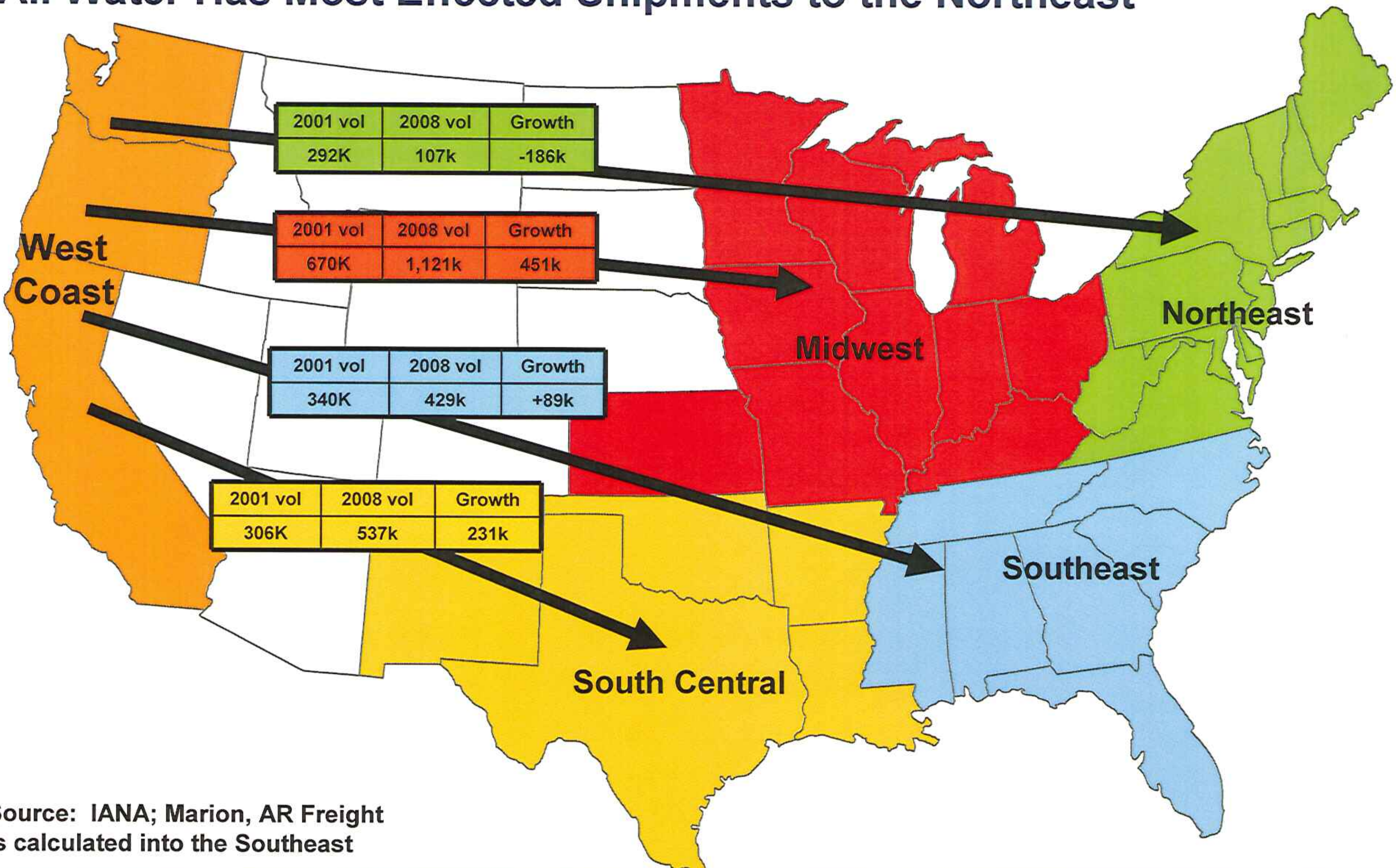
International Volume Growth 2001 to 2008 (UP + BNSF)

All Water Has Most Effected Shipments to the Northeast



Source: IANA; Marion, AR Freight is calculated into the Southeast

Use of On-Dock Facilities - *Improved*