



March 25, 2011

Dear Valued Customer and Business Associates:

My purpose for writing this letter is to provide an update of developments regarding coal dust mitigation, beginning with the STB's March 3, 2011 decision on coal dust loading rules and discuss where UPRR is on developing its coal dust rules.

On March 3, the STB issued its decision in response to a petition filed by Arkansas Electric alleging that BNSF's coal dust tariff represented an unreasonable practice. The Board concluded the following:

- Coal dust is a harmful ballast foulant and poses significant risk to the operational integrity of the railroad.
- Railroads may adopt rules to prevent loss from the top of the cars even if some coal dust comes from the bottom dumps.
- Containment is superior to maintenance.
- Railroads may adopt rules to mitigate coal dust without securing STB approval before the rules become effective.
- Railroads can adopt reasonable loading rules in response to changing circumstances.

Nonetheless, the STB found the BNSF IDV rule unreasonable due to uncertainty about whether treating a train would ensure compliance and about the consequences for non-compliance. The STB suggested that an activity-based standard with a safe harbor would be preferable. A link to the decision is included for your convenience.

<http://www.stb.dot.gov/decisions/readingroom.nsf/WebDecisionID/40436?OpenDocument>

At this point, Union Pacific does not know whether, how or when BNSF will change its Joint Line operating rule, which is similar to the Orin Subdivision tariff rule.

We are pleased that the Board concluded that shippers are responsible for loading coal in ways that mitigate dust during transportation. The Board's discussion of the standards it considered as it evaluated the BNSF rule will guide us as we continue to develop the Union Pacific coal dust standard.

In the meantime, Union Pacific continues to support the development and testing of various coal dust solutions to find the most effective. Results from the recent Surfactant Super Trial determined that several products achieved a high degree of dust suppression, basically in the 73-93% effectiveness range. We need to better understand what conditions or variables may have resulted in this range of results. In addition to surfactants, we also believe that other solutions may prove effective at solving this problem. For example, Union Pacific, in conjunction with AEP, Ameren, Associated Electric and BNSF, are currently supporting Crown Products & Services' testing of a coal compaction system at Peabody's School Creek mine. The compaction device has been built and has undergone a series of initial tests. The initial results are encouraging. Using the feedback from this test, the compaction equipment is being slightly re-engineered to make further improvements and testing is expected to resume soon. We anticipate sharing the results from the compaction tests after they are completed.

Union Pacific had previously installed passive collectors to track accumulation rates. We have now completed the installation of a Track Side Monitoring station (TSM) at South Morrill that will use stationary equipment to capture data about when and how much coal dust is released. We are in the process of completing the final software and hardware installations that will allow for trains passing this station to automatically correlate with dust data from the TSM on the south end of the Joint Line. We expect to use the data from these monitoring stations to evaluate progress toward the reduction of coal dust. We also plan to share the South Morrill TSM data with our customers, as we are already sharing the Joint Line TSM data, although I do not have a firm date for release.

Looking ahead, we are also evaluating the merits of equipping the coal fleet with car covers, which would offer 100% containment of coal dust, but also involve more engineering and complexity. We are excited about the innovation that has occurred in the car cover field and hope that the covers are close to field testing.

We will keep you posted on progress on coal dust mitigation efforts.

Regards,

