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Good afternoon Mr. Chairman and Members of the Committee. My name is Rich Vasy, and I am Assistant Vice President for Business Development within the Coal Marketing Department for Union Pacific Railroad. I am pleased to be here today to discuss Union Pacific's investment in moving Southern Powder River Basin coal from Wyoming to various locations across the country.

Wyoming and Union Pacific Railroad have a long and great history together as our route across the Southern part of the state is part of the first transcontinental railroad that linked the east and west together. Today this route carries as many as 65 trains a day across the state. In addition to the coal fields in the Powder River Basin, we also serve the soda ash mines in the Green River area. We employee over 1,500 people, and we have an annual payroll of $96 million. However, one of the biggest success stories for Wyoming and Union Pacific Railroad is the movement of coal from the Powder River Basin to utilities all across the nation, and the massive investment it has taken to make this happen.

In the early 1970s, the Burlington Northern Railroad and the Chicago & Northwestern Railroad were interested in developing Wyoming's coal fields. The Chicago & Northwestern didn't have the financial resources to proceed so Union Pacific stepped in with $325 million to underwrite their investment. The Joint Line was built, and we moved our first train on it on August 16, 1984.

In 1985, an 11,000-ton coal train was considered very large, and it required about 5 trains per day to move 19 million tons a year on the Joint Line, and we did this with only a single main line. By the time we acquired the Chicago & Northwestern ten years later, we were moving 25 trains per day and the average train size had grown to 12,400 tons. A large part of the Joint Line was double-tracked, but much of the UP route was still single main lines. As the market demanded more Western coal, we responded by building 109 miles of triple-main line with concrete ties and premium rail to handle the heavier loads. We also double-tracked large parts of our route across Nebraska. Today, Union Pacific averages 36 trains per day out of the basin, but that isn't the real story. The real story is the tonnage. In 2005, the Joint Line handled an all-time record 325 million tons, 179 million of this on the UP, and we are on track to haul even more in 2006. In fact, so far this year, the Joint Line has set a number of records for trains originating in one day, in one month, and as a daily average of trains in one month.

Building the infrastructure to handle this type of growth was not, and is not, cheap. Since 1982, our total investment in the coal business has been at least $10 billion. At the same time we have been making these massive investments, revenue per ton-mile for coal was declining. Coal has the lowest revenue per ton-mile of all rail commodities. This has made Western coal competitive in many markets, even when transported thousands of miles. In fact, from 1981 to 2004, rail rates for coal declined 32 percent in nominal dollars while electricity rates increased 38 percent during that same period.

Coal will continue to be an important partner for Union Pacific. Our capital budget for 2006 is approximately $2.8 billion. Of this, $1.5 billion is to replace track and increase fluidity and capacity for our customers. Much of this will be spent on our coal routes through Nebraska, Iowa, and Kansas. We wear out more than three miles of track a day, mainly due to the heavy haulage on our coal routes. At a cost of $700,000 per mile for replacement rail, this adds up very quickly. The cost goes up to $2.5 million per mile for new rail, such as new track on the Joint Line and on our main coal corridors.

In addition, in May of this year, we, along with the BNSF Railway, announced another significant capacity expansion on the Joint Line. We agreed to construct more than 40 miles of third and fourth main lines over the next two years. This will cost about $100 million. This project compliments the construction of 14 miles of third main line track that was completed in the spring of 2005 and an additional 19 miles of third main line currently under construction and scheduled to be fully operational in September. The total cost of this nearly 75 mile capacity expansion will be about $200 million, which is split equally between the two railroads. We are making these investments to enhance our ability to serve our customers and meet the nation's energy demands. These improvements will enable the Joint Line to handle in excess of 400 million tons of coal.

These investments are not cheap, and in order for us to continue to make them, we must be able to earn an adequate rate

of return on our investments. The rail industry is extremely capital intensive. From 1995 to 2004, U.S. Class I railroads spent on average 17.8 percent of their revenue on capital expenditures. The comparable figure for U.S. manufacturing as a whole was just 3.5 percent. At Union Pacific roughly 19 cents of every revenue dollar goes back into our infrastructure. Unfortunately, we still do not earn our cost of capital, so we must be very prudent with our capital resources. The only wise business decision we can make is to invest in those businesses where the returns justify the high costs. Every business in America must operate this way, and for us to continue to make these huge investments in our coal routes, we must earn an adequate rate of return.

Finally, I want to mention the coal supply chain. The network that is necessary to use coal as a source of energy to generate electricity is like a three legged stool. Each leg, in this case, the mines, the railroads, and the utilities, has an important part to play. We have our issues, but so do the mines and utilities. In today's high-demand environment, missed train slots at a mine are gone forever. Through the first seven months of 2006, mine production and loading bottlenecks have resulted in 327 missed loadings on the UP. The mines have to reduce unplanned equipment breakdowns and make sure that their production forecasts reflect a figure they can produce day in and day out. On the destination end, coal deliveries can be improved by working together to speed the unloading of the coal.

In summary, Union Pacific is proud of the role we played in developing the coal fields in the Southern Powder River Basin. As long as we can earn adequate rates of return, we plan to continue our investment in the infrastructure necessary to deliver this coal to locations both near and far. Mr. Chairman and Members of the Committee, that concludes my testimony, and I would be happy to answer any questions.