

BEFORE THE
SURFACE TRANSPORTATION BOARD

Finance Docket No. 36873

ENTERED
Office of Chief Counsel
August 18, 2025
Part of
Public Record

UNION PACIFIC CORPORATION AND UNION PACIFIC RAILROAD COMPANY
—CONTROL—
NORFOLK SOUTHERN CORPORATION AND NORFOLK SOUTHERN
RAILWAY COMPANY

**COMMENTS OF
RAIL CENTS ENTERPRISES, INC.**

I. Background

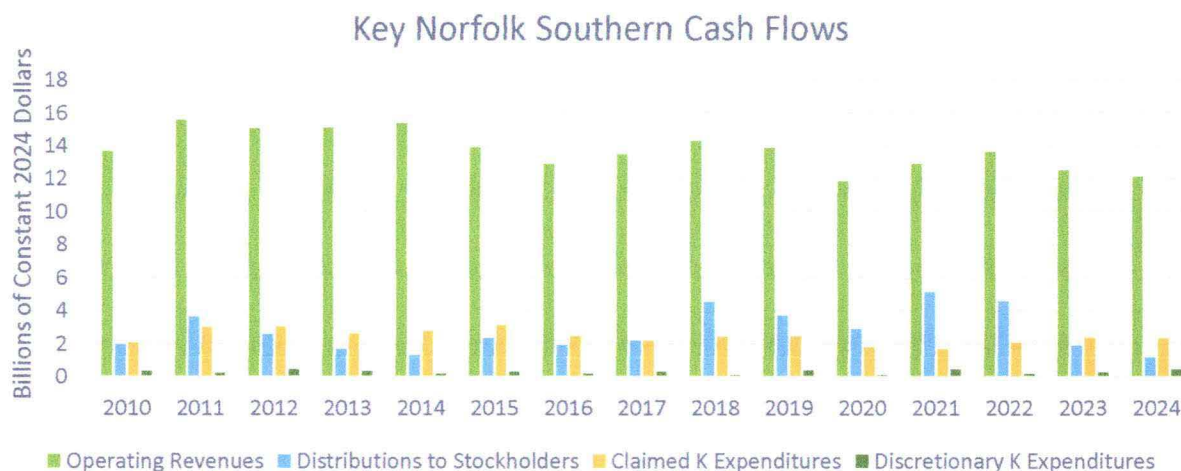
On July 30, 2025 Union Pacific Corporation (“UPC”) and Union Pacific Railroad Company (“UP”) (collectively “Union Pacific”) and Norfolk Southern Corporation (“NSC”) and Norfolk Southern Railway Company (“NS”) (collectively “Norfolk Southern”) filed a notice of intent with the Surface Transportation Board to seek approval of common control by UPC of UP and NS, in anticipation that the “combined UP-NS will produce rail volume growth that will drive additional employment opportunities in towns and cities across the combined rail network and generate economic growth in communities across the United States. The combined company will also compete more effectively with Canadian railroads to win back U.S. freight volume and American jobs.”¹

II. Overview of Comments

The comments herein will question whether the overall benefits anticipated by UP and NS can be reasonably substantiated, and will suggest that the proposed combination would likely impede revenue growth by UP and NS and have deleterious effects on UP and NS stockholders, shippers, employees, other railroads, and the U.S. economy in general.

¹ Notice of Intent filed by UPC, UP, NSC, and NS with the Surface Transportation Board on July 30, 2025, pp. 2-3

III. Pertinent Facts



As shown in the green bars above, NS's basic problem has been an inability to grow revenue. Revenue is the pertinent metric—not tons handled, not ton-miles moved—because of what revenue means for stockholder distributions, employment, and political clout. Appendix A itemizes the numbers behind the bars in the above chart, where NS's operating revenues for the last fifteen years, in constant 2024 dollars, declined twelve percent from \$13.7 billion in 2010 to \$12.1 billion in 2024. During the same fifteen-year time span the overall level of expenditures on freight in the U.S. increased seventy-two percent. Rail's share of expenditures dropped to six percent, per the annual report of the Council of Supply Chain Management Professionals.²

As shown in the blue bars above, the corollary problem is a reduction over the last two years in stockholder distributions³ by NS. Part of the reduction in 2024 resulted from expending \$1.64 billion to buy the formerly leased Cincinnati Southern Railway, a central link in the NS franchise. Part of the reductions in 2023 and 2024 were due to \$1.13 billion in net environmental and legal expenses associated with the derailment in E. Palestine, OH on February 3, 2023. The

² CSCMP's annual State of Logistics Report, as authored by Kearney, estimated freight transportation expenditures at \$1,663.5 million in 2024, as compared to \$681.9 million in 2010, which was the equivalent of \$966.7 million in 2024 dollars. Rail revenues were \$97.3 billion in 2024, or 5.8% of total freight transportation expenditures.

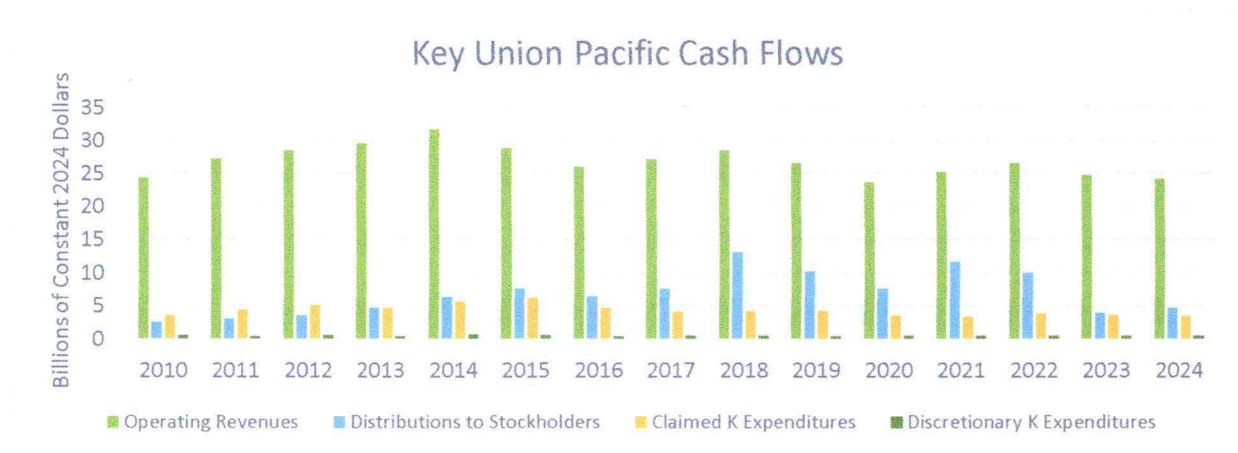
³ Stockholder distributions include dividends paid directly to shareholders and the purchase of shares of common stock, which indirectly benefit remaining shareholders by anticipated capital gains (on which no current tax is due).

size of the blue bars also reveals that it has not been necessary for NS to finance with new debt.⁴

Finally, the yellow and very short dark grey bars suggest two additional pertinent facts.

1. Accounting rules in the rail industry overstate free cash flow from operations by categorizing much of the replacement of existing track structures⁵ and rolling stock⁶ as capital investments, whereas such replacements-in-kind merely support existing profits. The yellow bars show reported capital investments. The grey bars show what are estimated here to have been invested in an attempt to increase revenue and profit, by removing capital expenditures that only replace existing structures and rolling stock.
2. NS has been sending most of its free cash flow from operations to its shareholders for use elsewhere, instead of finding ways to invest in its own revenue and profit growth.

The same observations also apply to Union Pacific⁷ regarding an inability to grow revenue and a policy of paying out most of, sometimes more than, free cash flow to shareholders.



⁴ In the early 1900's, railroads had to publish system maps showing liens in order to preclude using collateral twice.

⁵ In 1907, the ICC began requiring railroads to use standardized "betterment" accounting, where replacements-in-kind are expensed and only betterments are capitalized. The ICC eliminated betterment accounting in 1983 due to its complexity and expense, and also due to the idiosyncratic requests of two bankrupt railroads—Rock Island and Milwaukee Road—and the then-government-owned railroad—Conrail. With rare exceptions (such as UP's new serving yard in Casa Grande, NM and double-tracking) track expenditures are now replacements-in-kind.

⁶ The number of cars in the North American freight car fleet has been flat for the last quarter century, but the composition of the fleet has changed from 82% provided by railroads in 1971 to 77% leased by shippers in 2025. The Class I railroads' locomotive horsepower total peaked in 2016. Class I's have resisted buying expensive Tier 4 reduced-pollution locomotives. (*Progressive Railroading* magazine, July 2025, pp. 15-16)

⁷ Appendix B itemizes the numbers behind the bars in the chart of Key Union Pacific Cash Flows.

IV. Discussion of the General Landscape for Rail Traffic Growth

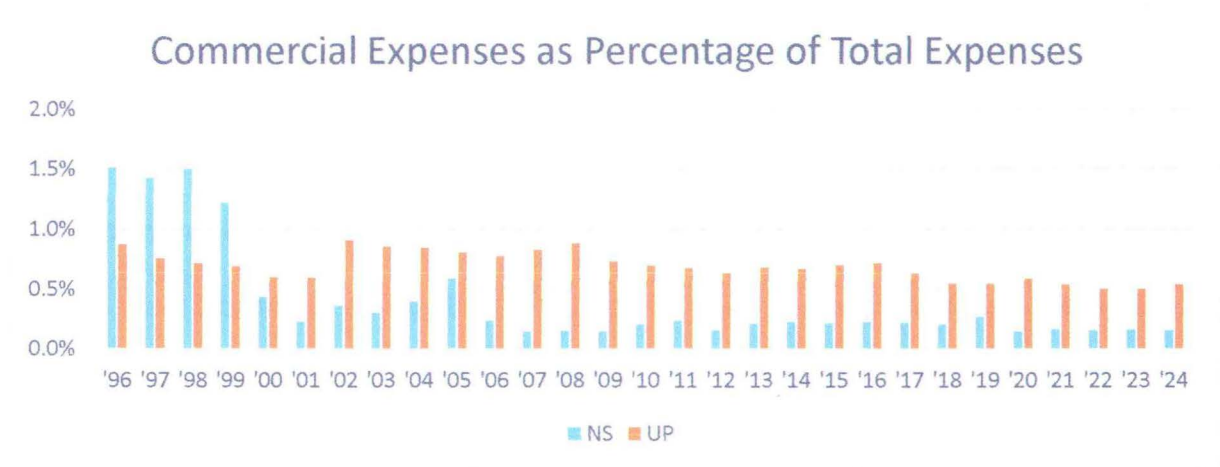
Since the Staggers Act of 1980, much of Class I activity supporting revenue and profit growth has centered on coal and intermodal traffic. These require rather limited commercial efforts, since coal production and use are concentrated into sizable entities, and since intermodal service is largely wholesaled to third parties that provide their own sales, marketing, and back-office networks. Coal and other fossil fuel traffic is in evolutionary decline. Intermodal traffic is largely limited to movements of at least 750 miles because truck pick-up and delivery costs (which are the most expensive parts of truck service) are embedded into intermodal costs, and because many endpoints for container and trailer movements are located far away from the mega-terminals that now dominate the intermodal service offerings by the Class I's. These conditions preclude intermodal from being competitive with truck-direct movement for most short-to-medium-distance traffic. Moreover, 90% of freight tonnage moves less than 750 miles,⁸ with the 10% moving over 750 miles constituting much of the existing traffic of pipelines, barge lines, rail bulk, and intermodal. Additionally, the average length of haul for truck movements has been decreasing due to the growing incidence of decentralized distribution centers that cater to just-in-time service. The low-hanging fruit for intermodal has already been harvested.

The Staggers Rail Act made it easier for the Class I's to sell and for entrepreneurs to operate lower-density rail lines, sparking the proliferation of short lines from 220 in 1980 to over 600 in 2025. Short lines can generate single-carload traffic because of their inherent structure—local decision-making by cross-functional managers. However, short lines have been hampered by Class I policies that tend to limit 1) customized short line revenue factors, 2) the frequency and dependability of car interchanges, and 3) interchanges with a second Class I carrier.

⁸ Per the U.S. DOT's Bureau of Transportation Statistics, in 2024, 7.2 trillion tons moved less than 100 miles, 7.7 trillion tons between 100 and 249 miles, 2.5 trillion tons between 250 and 499 miles, 0.8 trillion tons between 500 and 749 miles, and 1.9 trillion tons over 750 miles. (data.bts.gov/stories/s/Moving-Goods-in-the-United-States) p. 7

V. Discussion of the Prospects for UP and NS Traffic Growth

UP and NS have grown accustomed to focusing on handling existing traffic efficiently and to relying for growth on traffic that does not require much internal commercial effort.⁹



UP and NS do not have the commercial resources:

- to identify, solicit, and facilitate new single-carload traffic proactively,
- to influence non-commercial employees in order to customize single-carload service,
- to price either single-carload or intermodal traffic differentially, or
- to identify and champion capital investments that grow revenue and profit.

More subtly and more fundamentally, UP and NS do not have an organizational structure that can do what independent-minded short lines do—develop local decision-makers with cross-functional skills and sufficient authority to act as internal entrepreneurs.¹⁰ The enormous pool of potential new traffic for railroads is what moves now by short-and-medium haul truckloads, not trainloads of bulk materials and not longer hauls between mega-terminals.

⁹Appendix C itemizes the numbers behind the bars in Commercial Expenses as Percentage of Total Expenses.

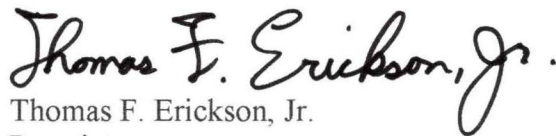
¹⁰In his noted 1911 book about free enterprise and entrepreneurs, Joseph Schumpeter classified management into “two types of individuals: mere managers and entrepreneurs. ... And from this it follows also for economic life that every step outside the boundary of routine has difficulties and involves a new element. It is this element that constitutes the phenomenon of leadership.” (*Fundamentals of Economic Development*, 1934 English translation in Routledge Classics, New York, 2021, pp. 67-68) In a 1928 article Schumpeter added that “Mere husbanding of already existing resources, no matter how painstaking, is always characteristic of a declining position.” (*Prophet of Innovation/Joseph Schumpeter and Creative Destruction* by Thomas McGraw [Harvard Univ. Press, 2007] p. 162)

Conclusion

Further consolidation of the American rail network is the opposite of what is required in order to grow rail revenue and profit. Most stockholders prefer growth engines to cash cows. Most shippers want the assurances of competition—the best hedge against poor service and elevated pricing—before they invest in new sidetracks. Most employees are interested in stable jobs and not cost-cutting. Other railroads could benefit from the flexibility of multiple run-through train partners and multiple joint-rate partners, and may not desire to be stampeded into their own mega-mergers. The general economy is stimulated by more degrees of freedom, not more monolithic structure. The organizational structure needed to attract appreciable new traffic to an inherently safe and environmentally friendly mode of transportation would arguably have smaller geographic profit centers that can identify and support single-carload traffic, not bigger segregated departmental budgets that can focus only on cutting costs.

The proposed combination would appear to be either empire-building or a ploy to deflect attention from the failure to grow revenue and profit.

Respectfully submitted,



Thomas F. Erickson, Jr.
Proprietor
Rail Cents Enterprises, Inc.
P. O. Box 235
Wallingford, PA 19086
Tel: 610-565-8458
tom.erickson@railcents.com

Appendix A
Key Norfolk Southern Cash Flows

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Millions of Current U.S. Dollars															
Operating Revenue ¹	\$9,516	\$11,172	\$11,040	\$11,245	\$11,624	\$10,511	\$9,888	\$10,551	\$11,458	\$11,296	\$9,789	\$11,142	\$12,745	\$12,156	\$12,123
Distributions to Shareholders ²	\$1,377	\$2,627	\$1,912	\$1,264	\$1,005	\$1,788	\$1,498	\$1,715	\$3,625	\$3,048	\$2,399	\$4,418	\$4,277	\$1,847	\$1,221
Claimed Capital Expenditures ³	\$1,470	\$2,160	\$2,241	\$1,971	\$2,118	\$2,385	\$1,887	\$1,723	\$1,951	\$2,019	\$1,494	\$1,470	\$1,948	\$2,349	\$2,381
Discretionary K Expenditures ⁴	\$231	\$154	\$337	\$257	\$130	\$239	\$132	\$237	\$83	\$327	\$83	\$386	\$174	\$255	\$479
Millions of Constant 2024 U.S. Dollars															
Consumer Price Index--Urban ⁵	218.056	224.939	229.594	232.951	236.736	237.017	240.007	245.120	251.107	255.657	258.811	270.970	292.665	304.702	313.689
Operating Revenue ¹	\$13,689	\$15,580	\$15,084	\$15,142	\$15,402	\$13,911	\$12,924	\$13,502	\$14,314	\$13,860	\$11,865	\$12,899	\$13,661	\$12,515	\$12,123
Distributions to Shareholders ²	\$1,981	\$3,663	\$2,612	\$1,702	\$1,332	\$2,366	\$1,958	\$2,195	\$4,528	\$3,740	\$2,908	\$5,115	\$4,584	\$1,901	\$1,221
Claimed Capital Expenditures ³	\$2,115	\$3,012	\$3,062	\$2,654	\$2,806	\$3,157	\$2,466	\$2,205	\$2,437	\$2,477	\$1,811	\$1,702	\$2,088	\$2,418	\$2,381
Discretionary K Expenditures ⁴	\$333	\$215	\$460	\$346	\$172	\$316	\$172	\$304	\$104	\$402	\$101	\$447	\$186	\$263	\$479

¹Operating Revenue per 10-K Reports

²Distributions to Shareholders per 10-K Reports, which are dividends to shareholders plus the purchase of common shares on the open market, the latter benefitting remaining shareholders by increasing profits per outstanding share, thus putting upward pressure on share price and deferring tax consequences to shareholders until their shares are sold. Neither dividends nor stock purchases have any effect on the company's rate of return.

³Claimed Capital Expenditures per 10-K Reports, which are substantially the same as capital expenditures reported on Line 43 of Schedule 330 in R-1 Reports

⁴Discretionary Capital Expenditures# as calculated by the author as the sum of the following from Column (e) of Schedules 330 in R-1 Reports:

Line 1, "Land for transportation purposes" (except deleting \$1.643 billion reported in the 2024 R-1 for purchase of the Cincinnati Southern Railway)

Line 25, "TOFC/COFC terminals"

Line 26, "Communication systems," where the PTC330* amount has been subtracted from the standard Schedule 330 amount

Line 27, "Signals and interlockers," where the PTC330* amount has been subtracted from the standard Schedule 330 amount

Line 29, "Computer systems & word processing equipment," where the PTC330* amount has been subtracted from the standard Schedule 330 amount

*Positive Train Control (PTC) was mandated by Congress in its Rail Safety Improvement Act of 2008, which defined PTC as "a system designed to prevent train-to-train collisions, over-speed derailments, incursions into established work zone limits, and the movement of a train through a switch left in the wrong position," [now codified in 49 USC 20157(i)(5)] which does not include any commercial benefits for revenue or profit growth

#maintenance-of-way and rolling stock expenditures being excluded since the reported amounts primarily represent the replacement of existing assets in kind, not capital expenditures meant to increase revenue and profit or improve the company's rate of return

⁵Consumer Price Index—All Urban Areas, as issued by the Bureau of Labor Statistics, where 1982-4 = 100

TFE 16 Jul 25

Appendix B
Key Union Pacific Cash Flows

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
Millions of Current U.S. Dollars															
Operating Revenue ¹	\$16,965	\$19,557	\$20,926	\$21,963	\$23,988	\$21,813	\$19,941	\$21,240	\$22,832	\$21,708	\$19,533	\$21,804	\$24,875	\$24,119	\$24,250
Distributions to Shareholders ²	\$1,851	\$2,255	\$2,620	\$3,551	\$4,857	\$5,809	\$4,984	\$5,995	\$10,524	\$8,402	\$6,331	\$10,091	\$9,441	\$3,876	\$4,718
Claimed Capital Expenditures ³	\$2,482	\$3,176	\$3,738	\$3,496	\$4,346	\$4,650	\$3,605	\$3,238	\$3,437	\$3,453	\$2,927	\$2,936	\$3,620	\$3,606	\$3,452
Discretionary K Expenditures ⁴	\$492	\$334	\$487	\$374	\$567	\$543	\$377	\$475	\$441	\$426	\$479	\$496	\$593	\$598	\$551
Millions of Constant 2024 U.S. Dollars															
Consumer Price Index--Urban ⁵	218.056	224.939	229.594	232.951	236.736	237.017	240.007	245.120	251.107	255.657	258.811	270.970	292.665	304.702	313.689
Operating Revenue ¹	\$24,405	\$27,273	\$28,591	\$29,575	\$31,785	\$28,869	\$26,063	\$27,182	\$28,522	\$26,636	\$23,675	\$25,241	\$26,662	\$24,830	\$24,250
Distributions to Shareholders ²	\$2,663	\$3,145	\$3,580	\$4,782	\$6,436	\$7,688	\$6,514	\$7,672	\$13,147	\$10,309	\$7,673	\$11,682	\$10,119	\$3,990	\$4,718
Claimed Capital Expenditures ³	\$3,571	\$4,429	\$5,107	\$4,708	\$5,759	\$6,154	\$4,712	\$4,144	\$4,294	\$4,237	\$3,548	\$3,399	\$3,880	\$3,712	\$3,452
Discretionary K Expenditures ⁴	\$708	\$466	\$665	\$503	\$751	\$718	\$492	\$608	\$550	\$522	\$580	\$575	\$635	\$616	\$551

¹Operating Revenue per 10-K Reports

²Distributions to Shareholders per 10-K Reports, which are dividends to shareholders plus the purchase of common shares on the open market, the latter benefitting remaining shareholders by increasing profits per outstanding share, thus putting upward pressure on share price and deferring tax consequences to shareholders until their shares are sold. Neither dividends nor stock purchases have any effect on the company's rate of return.

³Claimed Capital Expenditures per 10-K Reports, which are substantially the same as capital expenditures reported on Line 43 of Schedule 330 in R-1 Reports

⁴Discretionary Capital Expenditures# as calculated by the author as the sum of the following from Column (e) of Schedules 330 in R-1 Reports:

Line 1, "Land for transportation purposes" (except deleting \$1.643 billion reported in the 2024 R-1 for purchase of the Cincinnati Southern Railway)

Line 25, "TOFC/COFC terminals"

Line 26, "Communication systems," where the PTC330* amount has been subtracted from the standard Schedule 330 amount

Line 27, "Signals and interlockers," where the PTC330* amount has been subtracted from the standard Schedule 330 amount

Line 29, "Computer systems & word processing equipment," where the PTC330* amount has been subtracted from the standard Schedule 330 amount

*Positive Train Control (PTC) was mandated by Congress in its Rail Safety Improvement Act of 2008, which defined PTC as "a system designed to prevent train-to-train collisions, over-speed derailments, incursions into established work zone limits, and the movement of a train through a switch left in the wrong position," [now codified in 49 USC 20157(i)(5)] which does not include any commercial benefits for revenue or profit growth

#maintenance-of-way and rolling stock expenditures being excluded since the reported amounts primarily represent the replacement of existing assets in kind, not capital expenditures meant to increase revenue and profit or improve the company's rate of return

⁵Consumer Price Index—All Urban Areas, as issued by the Bureau of Labor Statistics, where 1982-4 = 100

Appendix C															
Selected Operating Expenses for Norfolk Southern and Union Pacific															
(thousands of current dollars)															
	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
<u>NS Expenses</u>															
Commercial*	\$44,453	\$42,998	\$47,821	\$57,217	\$24,673	\$12,116	\$19,034	\$16,841	\$23,048	\$38,930	\$16,549	\$10,313	\$11,675	\$9,162	\$14,311
Total	\$2,936,193	\$3,009,865	\$3,179,071	\$4,695,931	\$5,665,201	\$5,332,886	\$5,292,680	\$5,609,278	\$5,814,294	\$6,605,305	\$7,056,845	\$7,052,511	\$7,803,714	\$6,190,644	\$7,055,526
<u>UP Expenses</u>															
Commercial*	\$71,520	\$64,713	\$63,228	\$56,723	\$52,405	\$51,098	\$80,389	\$81,206	\$92,827	\$95,922	\$99,703	\$108,468	\$88,748	\$80,091	\$84,679
Total	\$8,220,899	\$8,594,138	\$8,821,103	\$8,222,313	\$8,728,738	\$8,623,929	\$8,845,867	\$9,481,767	\$11,013,882	\$11,894,909	\$12,855,142	\$13,083,608	\$10,075,010	\$10,916,501	\$12,173,754
	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>29-year Total</u>
<u>NS Expenses</u>															
Commercial*	\$19,311	\$12,814	\$17,016	\$18,745	\$17,092	\$16,087	\$16,225	\$16,378	\$20,817	\$10,653	\$11,857	\$13,185	\$16,007	\$14,102	\$609,430
Total	\$8,191,691	\$8,142,872	\$8,205,664	\$8,330,993	\$7,886,482	\$7,129,838	\$7,372,499	\$8,063,981	\$7,779,013	\$7,206,748	\$7,206,275	\$8,471,226	\$9,837,445	\$9,041,715	\$196,166,386
<u>UP Expenses</u>															
Commercial*	\$94,371	\$91,552	\$100,379	\$103,481	\$96,820	\$91,524	\$85,324	\$79,000	\$72,728	\$69,991	\$68,275	\$77,113	\$77,024	\$78,971	\$2,358,273
Total	\$14,043,514	\$14,407,804	\$14,765,928	\$15,488,688	\$13,838,390	\$12,752,314	\$13,551,333	\$14,499,095	\$13,342,573	\$11,852,739	\$12,689,131	\$15,251,429	\$15,236,317	\$14,556,517	\$347,827,332

*Commercial Expenses include three line items from Schedule 410 of the annual R-1 Reports to the Surface Transportation Board:

Line 604, Marketing Expenses

Line 605, Sales Expenses

Line 606, Industrial Development Expenses

TFE 16 Jul 25

CERTIFICATE OF SERVICE

This is to certify that a copy of the foregoing comments by Rail Cents Enterprises, Inc. has been electronically filed with the Surface Transportation Board this 16th day of August, 2025, and served via email or regular mail upon all parties of record, among which Rail Cents Enterprises does not desire to be included.


Thomas F. Erickson, Jr.