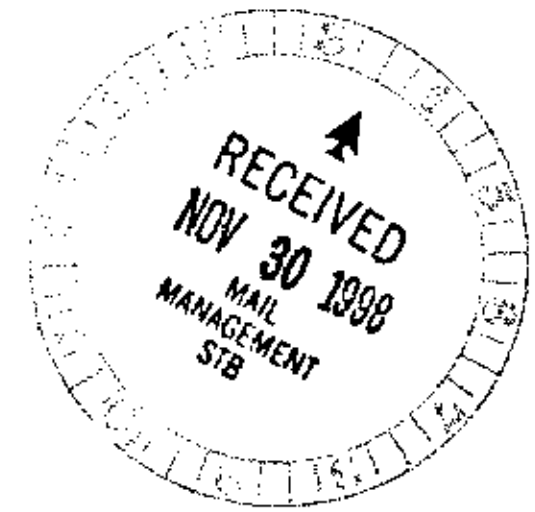


BEFORE THE
SURFACE TRANSPORTATION BOARD



STB FINANCE DOCKET NO. 33407

DAKOTA, MINNESOTA & EASTERN RAILROAD CORPORATION
CONSTRUCTION INTO THE POWDER RIVER BASIN

COMMENTS OF THE
U.S. DEPARTMENT OF AGRICULTURE

Michael V. Dunn
Under Secretary
Marketing and Regulatory Programs
U.S. Department of Agriculture
Washington, D.C. 20250

Date: November 30, 1998

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AUTHORITY AND INTEREST

The Secretary of Agriculture files these comments in support of the Dakota, Minnesota & Eastern Railroad's construction application. Under the *Agricultural Adjustment Act of 1938*, the Secretary is authorized to participate in Surface Transportation Board (Board) proceedings in order to represent the interests of agricultural shippers and producers. The Secretary is also a participant in the markets for agricultural products through the operations of the Commodity Credit Corporation and foreign commodity donation programs.

The Dakota, Minnesota & Eastern Railroad's (DM&E) construction application is important to the agricultural sector and we are pleased to support it. DM&E proposes to construct 278 miles of new track into the Powder River Basin (PRB) coal fields of Wyoming to tap the growing demand for low sulfur coal. DM&E proposes to completely rebuild their mainline between Winona, Minnesota, and Wasta, South Dakota, a distance of 598 miles, and to make significant improvements on the remaining 239 miles of their system.

We support DM&E's application because we believe it will increase rail capacity, improve farm income, boost rural economic development, and reduce pressure on the rural road network.

RAIL CAPACITY

Since the *Staggers Rail Act of 1980* the freight railroads have dramatically improved their productivity; more freight moves over a smaller network while rates have fallen and quality has improved. Unfortunately, two factors darken this otherwise bright picture. First, consolidation among Class I carriers has reduced intramodal rail competition. Second, the recent rail congestion problems suggest that the era of downsizing is over — increasing the volume of freight movements over a shrinking network no longer seems possible.

Indeed, the western railroad service crisis of 1997-98 demonstrates the sensitivity of current rail operations to shocks that reduce system velocity. Some shocks, which could have been handled locally not so long ago, can now disrupt interstate commerce. Consolidation in the industry has reduced the number of routes available to carriers, increasing the likelihood that weather-related disasters can disrupt rail traffic. It is important to prevent such service problems by adding capacity and new routing options, which the DM&E proposes to do. Approving DM&E's application will strengthen the rail network

and reduce the probability that severe weather or other disruptions will slow the movement of agricultural products, coal, and other goods.

FARM INCOME

In economic terms, transportation creates “place utility” and “value” for the product being moved — corn at the processing plant is more valuable than corn in the field. At present much of DM&E’s track is worn-out; large sections of its mainline track are restricted to 10 miles per hour. We believe that rebuilding DM&E will lower transportation costs, creating new opportunities for mutually beneficial exchange, which will aid consumers and producers.

Rehabilitating DM&E will improve the ability of agricultural producers to market their goods and boost their basis price. Presently, most of DM&E’s agricultural traffic is hauled to the Mississippi River for trans-loading onto barges, but DM&E cannot provide year-round service to its agricultural shippers because the river is frozen during the winter months. Little of the grain from DM&E’s service region is exported through the Pacific Northwest (PNW) ports even though much of the production from nearby North Dakota and Nebraska moves to the PNW. DM&E’s shippers cannot compete effectively for the PNW traffic because the railroad is too slow — it takes 9 days to move across the DM&E from end-to-end. Rebuilding the railroad will promises to cut this travel time from days to hours. In addition, connecting with the I&M Rail

Link near Owatonna, Minnesota, will allow DM&E-sourced corn to move to the processing plants of Iowa. With the ability to ship to three major markets (river, processors, and PNW), the basis price for agricultural producers should rise: some estimates suggest increases as high as 20¢ per bushel for both corn and wheat. If prices for wheat, corn, and soybeans increased just 10¢ per bushel, then farm income in the DM&E service region could increase by more than \$90 million in a typical crop year. Given the terribly difficult conditions facing farmers on the Upper Great Plains, the ability to raise incomes by such a significant amount is a strong argument that DM&E's application meets the public convenience and necessity test.

If DM&E is successful in rebuilding its railroad, farmers should also enjoy lower input costs and higher yields. Today, the threat of track-caused derailments limits DM&E's ability to carry anhydrous ammonia and other agricultural chemicals. Once DM&E rehabilitates its line it will be able to carry more fertilizers, pesticides, and herbicides, and the cost of these inputs should fall. Reduced input costs can have the same effect on farmer's profitability as increased product prices.

The benefits of DM&E's construction program will not be limited to agricultural producers in South Dakota and Minnesota. Agricultural products, like all other goods, compete for the railroad industry's locomotives, crews, and track space. Coal traffic from the PRB is a steady and lucrative business for

both the Union Pacific Railroad (UP) and the Burlington Northern Santa Fe Railway (BNSF). Demand for the low-sulfur PRB coal is increasing as utilities seek to comply with the requirements of the *Clean Air Act*. As coal and intermodal shipments bid away rail capacity, it seems possible that agricultural shippers, particularly those not using unit trains, could face upward rate pressure in the years ahead. Thus, approving DM&E's construction application could increase capacity available to agricultural shippers not just on DM&E, but on UP and BNSF as well.

RURAL ECONOMIC DEVELOPMENT

The Secretary of Agriculture advises the President, other members of his Cabinet, and the Congress on policies and programs designed to improve the quality of life for people living in the rural and nonmetropolitan regions of the Nation (7 U.S.C. 2204(a)). Rural development activities are important to the U.S. Department of Agriculture (USDA) and we believe DM&E's application should be approved on the additional ground that it could improve business and employment opportunities and increase the economic well being of rural residents. Extending DM&E into the PRB could create thousands of jobs in the mining and rail industries, while generating many other direct and indirect benefits, including enhanced opportunities for industrial development and tourism.

RURAL ROAD NETWORK

Increasingly, agricultural products move to market by truck, which places additional stress on the Nation's rural road network. The deteriorating condition of rural roads and bridges has led USDA to identify the future adequacy of the rural road network as a key agricultural transportation challenge for the 21st century. In both South Dakota and Minnesota the condition of more than 40 percent of the major highway system is rated as "less than fair." Rebuilding DM&E will have two positive effects on the rural roads in these two states. First, as rail become a more attractive transportation option, less grain will move over the rural road network. Second, DM&E's expansion plans should generate additional property taxes, both on its own property and, indirectly, through higher land values in its service region. Thus, communities in these states should enjoy better roads and schools than would otherwise be the case, thanks to higher local tax revenues and lower road maintenance expenses.

CONCLUSION

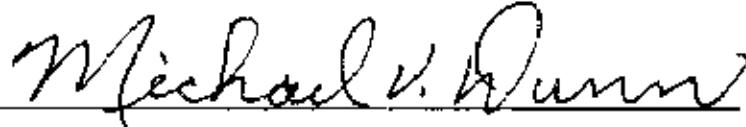
At the National Agricultural Transportation Summit held in Kansas City, Missouri, July 27-28, 1998, USDA identified a number of challenges that will face agricultural transportation in the 21st century. Approving DM&E's construction application could help to remedy three of the problems identified:

long-term capacity constraints in the U.S. rail system, the lack of intramodal competition in the U.S. rail industry, and the future adequacy of rural roads.

In addition, as the Board comes to its decision, it should keep in mind the possibility that if it rejects this application, the DM&E may file abandonment applications in the next few years. With so much of its track rated at 10 miles per hour, DM&E may not be able to keep its entire system in service. Just as there are positive benefits that will occur if DM&E rebuilds its line, there are negative impacts to abandonment and cessation of service: commodity prices and land values could fall further, it could be more difficult to attract economic development to rural communities, and the stress on the rural road system could increase.

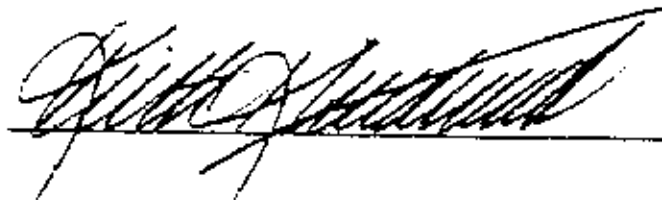
Because we believe that the public convenience and necessity call for the approval of DM&E's application, USDA urges the Board to approve this construction application and to publish a schedule that will allow for an appropriate and timely review of the environmental issues the project entails. Publishing such a schedule will give DM&E the best possible opportunity to successfully rebuild its line and bring about the many benefits described above.

Respectfully Submitted,


Michael V. Dunn
Under Secretary
Marketing and Regulatory Programs

CERTIFICATE OF SERVICE

The undersigned hereby certifies that on November 30, 1998, he caused a copy of the Department of Agriculture's comments to be served by first-class mail, postage prepaid, on all parties of record in STB finance Docket No. 33407.



Keith A. Klindworth
Program Manager
Marketing and Transportation Analysis
Agricultural Marketing Service