

DM&E: Extend line in '08

CEO says private investors are taking a look at coal plan

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Dakota Minnesota & Eastern Railroad CEO Kevin Schieffer sees a wealth of private capital available and expects to begin building 200 miles of new rail line next year, he said Wednesday.

The company's effort to secure a \$2.3 billion federal loan to help rebuild the railroad and extend it to Wyoming's Powder River Basin coal mines paid off even though the DM&E didn't get the loan, Schieffer said. Work that went into project design and securing contractors' bids is now being presented to private investors. And in the past three years, the amount of private capital available has substantially increased, he said.

Schieffer says pursuing the federal loan "has given the project a financibility that even in this hot market it probably wouldn't have had. ... It made it a very strong project to bring out in a very strong market."

He expects new tracks soon.

While "I would never say never" to beginning construction this summer, "next year will be the first major year of construction," Schieffer said.

A recent trade journal article says the DM&E is dealing with about 10 potential financiers, including the Canadian National railroad and the Canadian Pacific Railway. Schieffer deflects such conjecture.

"First of all, I would caution there is too much speculation in that area," he said. "There are a lot of noncarrier funds extremely ready, willing and able to invest in this."

Mark Hallman, a spokesman for the CN, says "our policy in such circumstances is 'no comment.'"

If the DM&E did work with another railroad, it would have to secure approval from the federal Surface Transportation Board. Where the STB used to routinely approve rail mergers, now it takes a hard look at the effect of such mergers on creating monopolies.

Another potential financial partner for the DM&E might be Omaha financier Warren Buffett's Berkshire Hathaway firm, which recently has invested in both utilities and the BNSF Railway. Schieffer declined to say whether Berkshire Hathaway is considering the DM&E.

Any proposed buyout of the DM&E also might involve the Union Pacific Railroad, according to Luther Miller, an editor at Railway Age magazine. He points out the UP has

a longstanding right of first refusal to buy the DM&E if it is sold, going back to 1986 when the DM&E was created from remnants of the Chicago & North Western Railroad.

Kathryn Blackwell, a UP spokesman, affirms that right does exist but said “we have no comment nor have we made any comment on the DM&E’s plans.”

Schieffer declined to discuss whether the UP option remains in force.

While the DM&E has drawn sharp opposition from the Mayo Clinic and Rochester, Minn., where its tracks cross a major highway and come within blocks of Mayo’s campus, and from people in Brookings and Pierre who want the railroad to bypass their towns, the DM&E has received steady support from Huron. It will be the site of an operations center when the project is built, Schieffer says.

Huron not in the loop

If the DM&E is entertaining potential investors, though, it is not introducing them to Huron officials.

“We have not been involved with any of that. We are not aware of who they are,” says Jim Borszich, executive director of the Greater Huron Development Corp. Another supporter, Mike Held, executive director of the South Dakota Farm Bureau in Huron, also said the DM&E is not parading potential buyers to Huron leaders.

As part of a \$100 million capital program, the DM&E will upgrade 110 miles of the rail line in Minnesota and South Dakota this year.

“That’s a record for us,” Schieffer said.

The PRB project was conceived as a means to develop sufficient traffic for the DM&E to pay for rebuilding its decrepit line. While the proposal was hailed by some as a bold entrepreneurial move, Schieffer said it wasn’t.

“We didn’t have a whole lot to risk,” he said. “It was something of a Hail Mary pass by this company, because the existing traffic could not sustain the infrastructure long-term.”

Since then, however, the DM&E acquired a sister line to the east, the Iowa, Chicago & Eastern, and the combined line has become the largest Class II carrier in the U.S.

“This company has grown into a very different kind of company than it was 10 years ago, and there is an awful lot to put at risk today,” Schieffer said. He’s mindful of that as he tries to move the project forward.

“I am absolutely committed, some days almost maniacally, to get the PRB project built. But I will never put this railroad at risk to do it,” he said. “It’s an incredible success story, the baseline railroad. It has been a home run.”