

DM&E anticipates financing for expansion

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The Dakota Minnesota & Eastern Railroad could get private financing for its expansion by the end of the year, CEO Kevin Schieffer says.

Despite being turned down in February, the application for the DM&E's \$2.3 billion federal loan from the Federal Railroad Administration helped establish potential customers for that coal, he said.

Engineering studies on more than 280 miles of new rail in western South Dakota and eastern Wyoming to the Powder River Basin, and regulatory approval for the project "pales in comparison to marketing," Schieffer said. "A customer has got to be there."

"The FRA process certainly helped crystallize a customer base," he said. "We spent a lot of time on that issue."

Schieffer said a financing deal could get done before the end of this year.

Speculation has included a buyout by another railroad or by power plants that would use coal hauled by the DM&E.

Stephen Brown, a railroad analyst with Fitch Ratings in Chicago, leans toward the second scenario.

"I suspect there is a lot of interest from the coal user community, particularly utilities that have complained about the price of shipping coal out of the Powder River basin, as well as reliability issues," he said.

The BNSF Railway and Union Pacific are the existing coal haulers from the Powder River Basin.

"If those lines are flooded or damaged, it would certainly be helpful to have another alternative for routing coal out of there," Brown said.

A merger between the DM&E and either the UP or BNSF would be made difficult by federal regulators' concerns about a lack of competition, Brown said.

While the availability of private money for transportation projects might not be as bountiful as it was a year ago, there still is money out there, say both Brown and Schieffer.

"For good projects there is a ton of money, and this is a good project," Schieffer said.

But it will require investors willing to take a risk, Brown said.

"It will be more of a speculative-type investment," he said.

The whole project could cost as much as \$6 billion, Schieffer has said.

"That's a huge sum relative to the current size of the company," Brown said.