

DM&E Rail Set to Unveil Midwest Accord

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In a step toward creating its proposed coal-hauling network, Dakota, Minnesota & Eastern Railroad Corp. is expected to unveil today a definitive agreement to acquire a Midwestern railroad with access to major rail hubs and connections.

Under the agreement, Dakota, Minnesota & Eastern would acquire all the track, equipment and other assets of I&M Rail Link LLC, which operates 1,500 miles of track, connecting Chicago and St. Paul, Minn., with Kansas City, Mo.

The companies declined to comment on the purchase price, which some industry executives believe is in the area of \$150 million.

The move comes after federal regulators late last month gave final approval to Dakota, Minnesota & Eastern to build and operate a \$1.5 billion rail line into Wyoming's Powder River Basin, the nation's largest deposit of low-sulfur coal.

The project, the largest rail-building effort in the U.S. in decades, would involve building about 280 miles of new track and upgrading 600 miles of existing track. It would create a third rail route into the Powder River Basin and compete with two big railroads, Union Pacific Corp., Omaha, Neb., and Burlington Northern Santa Fe Corp., Fort Worth, Texas, that already have tracks there.

"The entire story of the DM&E is a challenge to the major railroads," said Anthony Hatch, an independent analyst in New York. "The first step was its application to build into the Powder River Basin, and the I&M acquisition is a way to better get that coal into Midwest and Eastern markets."

Still, Dakota, Minnesota & Eastern faces major challenges of its own, including raising the money for its planned extension into the Wyoming coal fields. It also faces vocal opposition from some communities along its tracks, including Rochester, Minn., that are concerned about increased rail traffic.

Dakota, Minnesota & Eastern, based in Brookings, S.D., operates about 1,100 miles of railroad from western South Dakota to eastern Minnesota. Linking it with I&M Rail Link—owned 67% by Washington Cos. of Missoula, Mont., and 33% by Canadian Pacific Railway Co., Calgary, Alberta—would provide direct access to four coal-burning electric generating plants and entry into major rail gateways such as Chicago.

"In the railroad world, Chicago is Rome, and this gets us to Chicago," said Kevin Schieffer, president of Dakota, Minnesota & Eastern. Mr. Schieffer added that having access to many railroads is particularly important if future railroad mergers reduce the number of major railroads.