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DAIRYLAND POWER
COOPERATIVE

June 10, 2011

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Ms. Cynthia T. Brown
Chief, Section of Administration
Office of Proceedings
Surface Transportation Board
395 E Street, SW
Washington D.C, 20243

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Dear Ms. Brown:

SUBJECT: STB Docket No. EP, 705, *Competition in the Railroad Industry*

Dairyland Power appreciates the STB willingness to address the important issue of rail competition through these hearings.., in this letter, I would like to address for the Board's benefit the reply statement made by Mr. John J. Koraleski of Union Pacific Railroad in this docket.

In his reply statement, Mr. Koraleski references the fact that Dairyland Power Cooperative informed Union Pacific earlier this year that we will not be proceeding with a proposal Union Pacific had made to Dairyland for coal transportation from the Powder River Basin. Union Pacific and Mr. Koraleski apparently have chosen to infer from this communication that Dairyland has awarded this business to BNSF. In fact, Dairyland currently remains in confidential negotiations in this multi-modal transportation move and we are quite concerned with Union Pacific's decision to publicly disclose our communication to them involving our confidential contract negotiations.

Mr. Koraleski's mention of Dairyland's decision not to proceed with the Union Pacific proposal appears to be an attempt to assert that Dairyland's decision not to proceed with the Union Pacific proposal is somehow strong evidence that aggressive competition as alive and well in the rail industry. We encourage the Board to reject such an assertion.

The Dairyland transportation movement to which Union Pacific is referring is a multi-modal move to a plant that can only receive coal by barge. PRB coal must be transported by rail to a river terminal where it is transferred from rail cars to barge for delivery to one of our power plants located on the Upper Mississippi River.

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In evaluating our least cost alternatives for transporting coal, Dairyland must consider many factors including the combined costs of rail delivery, terminal costs, and barge delivery. In addition to the transport costs, the terminal storage costs and capability can also be a very important factor. Barge delivery is only available from mid March to mid November due to the severe winters and closure of navigation during winter months due to ice. The river is also prone to occasional navigation disruptions due to flooding, low water, and lock and dam maintenance which places a premium on inventory space and the ability to continue delivering coal by rail to the terminal where it can be temporarily stored until final delivery by barge to the plant can be completed.

The bottom line is that the rail rates are just one component of our delivered costs in the business to which Mr. Koraleski refers in his reply statement. Mr. Koraleski does acknowledge in his testimony that Union Pacific can only "presume" that Dairyland had been offered a "better deal" from the other rail carrier. However, because this is a multi-modal move involving confidential proposals from different railroads, terminal and barge rates from different locations and companies, Dairyland would contend Union Pacific could not know with certainty that Dairyland's decision to not proceed with Union Pacific was because we had been offered a more competitive rail rate.

We encourage the Board to take this into consideration and discount Union Pacific's apparent attempt to lead the Board to believe Dairyland's recent decision not to accept the Union Pacific proposal is on it's own is somehow evidence that robust rail competition exists.

Please include this letter in the EP 705 record.

Sincerely,

John P. Carr
Director, Fuel and Power Marketing

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cc: UP Counsel of Record
John J. Koraleski