BEFORE THE
SURFACE TRANSPORTATION BOARD

Finance Docket No. 30186 (Sub-No. 3)

TONGUE RIVER RAILROAD COMPANY -- RAIL CONSTRUCTION AND OPERATION -- WESTERN ALIGNMENT IN ROSEBUD AND BIG HORN COUNTIES, MONTANA

APPLICATION FOR CONSTRUCTION AND OPERATION AUTHORITY

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APPLICATION FOR CONSTRUCTION AND OPERATION AUTHORITY

Tongue River Railroad Company ("TRRC") hereby submits its Application for Construction and Operation Authority ("Application"), pursuant to 49 U.S.C. § 10901 and 49 C.F.R. § 1150.1-.10, seeking authority from the Surface Transportation Board ("STB" or "Board") to construct and operate over an approximately 17.3-mile line of railroad in Rosebud and Big Horn Counties, Montana known as the "Western Alignment."[1] In support of its request

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[1]TRRC filed its Notice of Intent to file this railroad construction and operation Application on December 19, 1997. On February 9, 1998, TRRC requested a waiver of the requirement that it provide the Board's Section of Environmental Analysis ("SEA") with six months notice prior to filing its Application. See Letter to E. Kaiser from B.J. Christian, counsel for TRRC, in Finance Docket No. 30186 (Sub-No. 3) dated February 9, 1998. SEA granted the requested waiver on

(continued...)

for construction and operation authority, TRRC submits the following information as required by 49 C.F.R. Part 1150:

OVERVIEW (Section 1150.2)

(a) A brief narrative description of the proposal.

By this Application, TRRC is seeking authority to construct and operate over an approximately 17-mile line of railroad at the southernmost portion of its previously approved line of railroad between Ashland and Decker, Montana. See Tongue River Railroad Company -- Rail Construction and Operation -- Ashland to Decker, Montana, Finance Docket No. 30186 (Sub-No. 2) (not printed) (served Nov. 8, 1996) ("1996 Decision" or "TRRC II"). The line that is the subject of this Application is an alternative routing for the portion of the Ashland to Decker line referred to as the "Four Mile Creek Alternative," which was approved by the Board in the 1996 Decision. The purpose of the application is to permit the construction of a line that is superior from an operational, maintenance, economic and environmental standpoint to that previously authorized.[2]

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[1](...continued)
February 13, 1998. See Letter to B.J. Christian from E. Kaiser in Finance Docket No. 30186 (Sub-No. 3) dated February 13, 1998. The Board upheld the SEA's waiver in a decision served on April 16, 1998. Tongue River Railroad Company -- Construction and Operation -- Western Alignment, Finance Docket No. 30186 (Sub-No. 3) (not printed) (served April 16, 1998).

[2] TRRC first sought Board consideration of the "Western Alignment" in a July 1997 petition to reopen the 1996 Decision. In a decision served December 1, 1997, the Board denied TRRC's petition to reopen without prejudice to the filing of a new application seeking separate authority for the Western Alignment. See Tongue River Railroad Company -- Rail Construction and Operation -- Ashland to Decker, Montana, Finance Docket No. 30186 (Sub-No. 2) (not printed) (continued...)

The Ashland to Decker line approved by the Board in the 1996 Decision is in addition to an approximately 89-mile railroad line between Ashland and Miles City, Montana that was approved by the Board's predecessor, the Interstate Commerce Commission ("ICC" or "Commission") in the mid-1980's. See Tongue River Railroad Company -- Rail Construction and Operation -- In Custer, Powder River and Rosebud Counties, Montana, Finance Docket No. 30186 (not printed) (served Sept. 4, 1985), modified, (not printed) (served May 9, 1986) ("1986 Decision" or "TRRC I").[3] Once constructed, the two lines will together form an approximately 115-mile line from the Spring Creek/Decker area to Miles City, Montana, with connections to lines of The Burlington Northern and Santa Fe Railway Company ("BNSF") at both Decker and Miles City.[4]

The present Application seeks Board approval to permit TRRC to construct and operate over the Western Alignment, rather than the Four Mile Creek Alternative, for the southernmost portion of the approved project. At the southernmost terminus, the Western Alignment will be adjacent to the operating coal mines in the Spring Creek/Decker area and will connect to a private rail line owned by Spring Creek Coal Company ("Kennecott"). The TRRC

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[2](...continued)
(served Dec. 1, 1997).

[3] The 1986 Decision approved TRRC's application to construct an approximately 89-mile rail line between Miles City, Montana, and two termini: one in Rosebud County, Montana, near the town of Ashland; and the other in Powder River County, Montana, near an area known as Otter Creek.

[4] The Ashland to Decker segment will connect with the Miles City to Ashland segment at its first terminus point. The line to the Otter Creek area, the second terminus point on the Miles City to Ashland segment, will thus be a spur of 7.3 miles that has not been included in the overall rail mileage figure set forth above.

line will also extend to a connection with the BNSF, which directly serves the East and West Decker mines. (See maps attached hereto in Exhibit C.)

The principal purpose of the Tongue River Railroad project is to transport low sulfur, sub-bituminous coal, primarily to electric utilities in the upper Midwestern and Great Lakes states. As discussed below, the sole purpose of this Application is to request authorization to construct the Western Alignment as an environmentally, economically and operationally preferable routing to the Four Mile Creek Alternative that was approved by the Board for the southernmost portion of TRRC's Ashland to Decker line. Except as set forth herein, all of the facts and findings relied upon by the Board, including the environmental report, are largely unchanged from the 1996 Decision and, accordingly, should be considered as incorporated by reference for purposes of this Application.[5]

As approved by the ICC in the 1986 Decision, the overall TRRC rail line will begin southwest of Miles City. It will extend approximately 68 miles south to a point near the town of Ashland, Montana. The line will divide, with the main line proceeding 8.9 miles up the Tongue River Valley to the proposed Montco Mine (Terminus Point 1), and the other branch extending 7.3 miles up the Otter Creek drainage (Terminus Point 2).

TRRC's Ashland to Decker segment will connect with the Miles City to Ashland line at Terminus Point 1, and will continue southwest along the Tongue River valley. The Western Alignment separates from the previously-approved line at a point approximately nine miles downstream from the mouth of Four Mile Creek at Mile Post 20.8 of the Ashland to Decker

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[5] Cf. Somerset Railway Corp. -- Construction -- Niagara County, N.Y., 366 I.C.C. 144 (1982).

segment.[6] Near this point, the Western Alignment would cross the Tongue River approximately 3,000 feet downstream of the existing county road crossing of the Tongue River. After crossing to the west side of the Tongue River, the Western Alignment would proceed southwest to the terminus at Spring Creek/Decker. A complete description of the Western Alignment (including milepost designations) is provided in Section 1150.4(a) below.

Approval of this Application would reduce the length of TRRC's Ashland to Decker line by 12.1 miles, since the Four Mile Creek Alternative spans 29.4 miles while the length of the Western Alignment is only 17.3 miles. Moreover, as explained more fully in the Environmental Report attached as Exhibit H and the Verified Statements of Daniel R. Hadley, Robert H. Leilich, Larry A. Parker and David J. Mahle in Appendix A to this Application, the Western Alignment offers significant environmental, operational and maintenance advantages over the Four Mile Creek Alternative approved by the 1996 Decision.

As a result of its shorter length, the Western Alignment will require less land to be acquired for the right of way, will cross fewer public and private roadways, will impact fewer possible wetland locations, will disturb fewer acres of vegetation and wildlife habitat and affect the fewest sensitive receptors from the noise created by constructing and operating the rail line. Significantly, due to its shorter length and lesser gradients, the Western Alignment will reduce the risk of derailments and grade crossing accidents; it also will reduce air emissions during operations and will permit substantial productivity improvements and savings in motive power and fuel to be realized. Also, maintenance and operating costs will be reduced, and safety enhanced as

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[6] The Tongue River flows north in this area of Montana. Thus, locations that are identified as being downstream of a given point are north of that point.

a result of the mileage savings and topographic advantages of the Western Alignment. As discussed in the Verified Statement of Robert H. Leilich in Appendix A, the modestly higher construction costs associated with the Western Alignment will quickly be recouped by the significant annual savings in operating and maintenance costs.

(b) The full name and address of applicant(s).

TRRC's full name and address is:

Tongue River Railroad Company
550 North 31st Street, Suite 250
P.O. Box 1181
Billings, MT 59103

INFORMATION ABOUT APPLICANT(S) (Section 1150.3)

(a) The name, address, and phone number of the representative to receive correspondence concerning this application.

Correspondence relating to this Application should be directed to the following representatives of TRRC:

Mike T. Gustafson
Tongue River Railroad Company
550 North 31st Street, Suite 250
P.O. Box 1181
Billings, MT 59103
(406) 252-5695
(406) 252-0073 (FAX)

Betty Jo Christian
Steptoe & Johnson LLP
1330 Connecticut Avenue, N.W.
Washington, DC 20036
(202) 429-8113
(202) 429-3902 (FAX)

(b) Facts showing that applicant is either a common carrier by railroad or has been organized to implement the proposal for which approval is being sought.

The Tongue River Railroad Company was organized as a limited partnership to construct and operate the rail line previously approved by the Board and its predecessor in the 1986 Decision and the 1996 Decision. A copy of the Certificate of Formation of Limited Partnership for Tongue River Railroad Company was filed on June 2, 1983 as Exhibit B to its Application in Finance Docket No. 30186. A copy of the Certificate of Amendment to Certificate of Formation of Limited Partnership for Tongue River Railroad Company was filed on June 28, 1991 as Exhibit B to its Application in Finance Docket No. 30186 (Sub-No. 2). The TRRC partnership agreement has not been amended since the date of the filing of TRRC's last application.

As the previously filed certificates reveal, TRRC was organized to design, plan engineering studies of, arrange financing for, and obtain all necessary federal, state, and local permits and authorizations for the construction and the operation of a standard-gauge railroad in southeastern Montana. TRRC expects to be a common carrier, and commodities other than coal may also be transported on it.

(c) A statement indicating whether the rail line will be operated by applicant. If not, the operator which has been selected must join in the application, and provide all information required for an applicant. If the operator has not yet been selected, state who is being considered.

Two alternatives are currently being considered for operations over TRRC's rail lines, including the Western Alignment. Under the first alternative, TRRC would operate over the rail lines itself with experienced railroad personnel, who would be hired before operations

commence. Under the second alternative, BNSF would operate over TRRC's rail lines pursuant to an agreement that has yet to be finalized.

Negotiations between TRRC and BNSF are currently ongoing. TRRC will promptly inform the Board of any final decision regarding the alternative that will be used.

(d) A statement indicating whether applicant is affiliated by stock ownership or otherwise with any industry to be served by the line. If so, provide details about the nature and extent of the affiliation.

Transportation Properties LLP, the general partner of TRRC, is a Montana limited liability partnership comprised of the following partners: The Pittsburgh & Midway Coal Mining Co. ("P&M"), a Missouri corporation that is affiliated with Chevron Corporation; and WesRail, Inc., a Montana corporation that is a wholly-owned subsidiary of Wesco Resources, Inc., a Montana corporation. Tongue River Holdings, Inc., the limited partner of TRRC, is owned by Transportation Properties LLP, P&M and WesRail, Inc.

Through other partnership entities or relationships, Wesco Resources, Inc. has surface and coal interests in Montco LLP, an undeveloped coal mine in Rosebud and Powder River Counties, Montana that would, when developed, be served by the line. P&M also has surface and coal interests in Montco LLP. P&M is also affiliated with other Chevron-related entities that have surface and coal interests that, once developed, would be served by TRRC. A joint venture between Chevron Coal Development Company and Consolidation Coal Operating Company owns interests in the Otter Creek and the CX Ranch properties that, once developed, would be served by TRRC. P&M also controls a surface position at Ash Creek that, if developed, would be served by TRRC.

(e) **Date and place of organization, applicable State statutes, and a brief description of the nature and objectives of the organization.**

TRRC was registered as a Montana limited liability partnership with the Office of the Secretary of the State of Montana on June 19, 1981, under Document 283235, according to the provisions of the Montana Limited Partnership Act, Title 35, Chapter 12, *MCA*, 1981, and, to the extent applicable, of the Montana Uniform Partnership Act, Title 35, Chapter 10, *MCA*, 1981.

This limited liability partnership was organized to design, plan engineering studies of, arrange financing for, and obtain all applicable federal, state, and local permits and authorizations for the construction and the operation of a standard-gauge railroad. The limited partnership agreement has been amended to encompass the rail line extension from Ashland to Decker, Montana that was approved in the 1996 Decision.

(f) **If a corporation, submit: ...**

Not applicable. TRRC is not a corporation.

(g) **If a partnership or individual, submit the name and address of all general partners and their respective interests, and whether any of them control other carriers.**

TRRC is a Montana limited partnership. The general partner and its interest is:

Transportation Properties LLP — 99.53 %
(a limited liability partnership)
550 North 31st Street, Suite 250
P.O. Box 1181
Billings, MT 59103

Transportation Properties LLP does not control any other carriers.

Paragraphs **2(h), 2(i) and 2(j)** are inapplicable.

INFORMATION ABOUT THE PROPOSAL (Section 1150.4)

(a) A description of the proposal and the significant terms and conditions, including consideration to be paid (monetary or otherwise). As Exhibit B, copies of all relevant agreements.

This Application seeks Board authorization to construct and operate over the Western Alignment, rather than the Four Mile Creek Alternative, for the southernmost portion of the Ashland to Decker, Montana line approved by the 1996 Decision. TRRC's consulting engineers, working in conjunction with representatives of BNSF, identified the Western Alignment as a viable alternative to the Four Mile Creek routing following further analysis undertaken after issuance of the 1996 Decision. As the evidence presented with this Application establishes, the Western Alignment is preferable to the Four Mile Creek Alternative because it presents significant economic, operating, maintenance and environmental advantages.

Since TRRC seeks approval only to construct and operate over the Western Alignment as an alternative to the Four Mile Creek Alternative, this Application concerns only the 17.3 miles of rail that are the Western Alignment. The Western Alignment separates from the Ashland to Decker route approved by the 1996 Decision approximately 20.8 miles from Terminus Point 1. This point, Mile Post 20.8 of the Ashland to Decker route, is approximately nine miles north of the mouth of Four Mile Creek. This point is Mile Post 0.0 of the Western Alignment. The Western Alignment crosses to the west side of the Tongue River over a 400-foot bridge at Mile Post 0.8, approximately 3,000 feet downstream from the existing county road bridge crossing the Tongue River. After crossing the river, the Western Alignment generally parallels the existing Tongue River County Road for four miles.

At Mile Post 5.4, the Western Alignment separates from the county road and continues on a 0.93 percent climb to rise away from the valley floor. At Mile Post 7.5, the Western Alignment crosses the Four Mile Creek drainage with a 100-foot long bridge over the county road. The bridge is approximately 0.8 miles west of the approved Tongue River bridge location for the Four Mile Creek Alternative.[7] At this location, the Four Mile Creek Alternative would require construction of an 80-foot high, 400-foot long bridge crossing the Tongue River. This bridge will be avoided with the Western Alignment.

From the Four Mile Creek drainage crossing, the Western Alignment continues south, climbing away from the Tongue River Valley floor and running approximately one mile west of the river. At Mile Post 13.6, the Western Alignment passes approximately one mile west of the Tongue River Dam, and proceeds directly southwest to connect with the existing Spring Creek spur. The Western Alignment is located further west of the Tongue River State Recreation Area than TRRC's original preferred alignment that was previously studied by the Board and SEA.

The Western Alignment would reduce the length of TRRC's line between Ashland and Decker by 12.1 rail miles. This reduction in length of the line, as well as the elimination of curvature and grade problems associated with the Four Mile Creek Alternative, will result in economic, environmental and operating benefits.[8]

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[7] This also locates the railroad approximately 3,500 feet west of the Hosford residence and ranch headquarters, which is directly impacted by the Four Mile Creek Alternative.

[8] As before, TRRC's proposal to construct and operate over the Western Alignment presumes that TRRC will come to a formal agreement with BNSF to either purchase or lease existing BNSF (continued...)

Like TRRC's other mainline rail segments, the Western Alignment will be a single track facility constructed of 136-pound, continuous-welded rail, and will be built and maintained to Class IV standards. The rail will be placed on a prepared grade and will occupy a right-of-way ("ROW") averaging 200 feet, ranging from 75 feet up to 900 feet. The Western Alignment will include construction of one passing siding, approximately 8,500 feet long, near the connection with the Spring Creek Spur. State-of-the-art number 20 spring or electric powered switches will be used to permit route diversion at speeds of 45 to 50 MPH. In addition to the main passing siding, a shorter set-out track approximately 550 feet in length, constructed of 132-pound relay rail, will provide for temporary storage of cars requiring repair and for storage and clearing of maintenance equipment.

TRRC has entered into an agreement with Granite Construction Company ("Granite") to develop the entire TRRC rail project through a design/build approach. Granite has aligned itself with other contractors and engineering firms, including Kiewit Construction Company, URS Greiner, Inc. and Carter Burgess Engineering. The contractors will have the authority to choose the precise methods of construction to be employed; however, TRRC has established general guidelines for construction, which are discussed in the Hadley Verified Statement in Appendix A.

The estimated construction cost of the Western Alignment is approximately $92,612,496. The estimate includes all costs associated with excavation, major structure

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[8](...continued)
trackage between East Decker and West Decker and BNSF's end-of-track connection with Kennecott. Absent such an agreement, the TRRC will construct the necessary trackage to serve the Decker area mines.

installation, construction reclamation, track installation, signals and communications system, and railroad infrastructure. A break-out of the costs is contained in Attachment 1 to the Hadley Verified Statement in Appendix A.

(b) Details about the amount of traffic and a general description of commodities.

As part of the TRRC line from Miles City to Ashland and the extension southward from Ashland to the Spring Creek/Decker coal mines, the principal commodity to be transported over the Western Alignment will be coal moving from existing and proposed coal mines containing well over five billion tons of low sulfur sub-bituminous coal. Other commodities that might move over the Western Alignment are wood chips, lumber and agricultural products.

The Western Alignment will connect with BNSF at Spring Creek/Decker and, at the northernmost point of its previously approved segment, TRRC will connect with BNSF at Miles City. Use of TRRC's line will reduce the present transportation distance for coal mined in the upper Powder River Basin (both in Montana and Wyoming) by approximately 130 to 160 miles on 750 to 1,000 mile hauls to electric utilities in the upper Midwest and Great Lakes regions (or round-trip mileage savings of 260 to 320 miles). Use of the Western Alignment in lieu of the previously approved Four Mile Creek Alternative would result in a further 12.1-mile reduction in the length of haul (or 24.2 miles round trip). Significant savings in transportation, maintenance and equipment costs would result, as detailed in the Leilich Verified Statement.

Construction of the Tongue River Railroad will also provide, for the first time, rail service to the largest remaining undeveloped reserves of low sulfur, sub-bituminous coal in the United States. This coal is significant as it is recognized as a potential solution to sulfur

limitations contained in the Clean Air Act Amendments of 1990 (Pub. L. No. 101-549, 104 Stat. 2399).

TRRC anticipates that approximately 26.4 million tons of coal will be moved over the TRRC line in the first year of operations, principally from the two Decker mines (East Decker and West Decker) and the Spring Creek mine. The forecasts being submitted with this Application anticipate the movement of 33.1 million tons in year five and 37.4 million tons in year ten (See Table 1 below).

Coal tonnage hauled in year one will result in approximately 38.5 round trips per week on a 7-day weekly schedule. In year five, 48.3 round trips per week have been projected; in year ten, 54.6 trains per week are anticipated to utilize the TRRC.

Table 1. Coal Tonnage Forecasts (millions of tons) Tongue River Railroad.

Operating Year	ORIGIN			Total
	Decker/ Spring Creek	(BNSF) Wyoming	Ashland Area Mines	
1	20.4	5.0	1.0	26.4
2	21.4	5.0	1.5	27.9
3	22.4	5.0	2.5	29.9
4	23.4	6.0	3.3	32.7
5	20.4	6.0	6.7	33.1
6	17.4	6.0	10.1	33.5
7	14.4	6.0	13.5	33.9
8	11.4	6.0	16.9	34.3
9	8.4	6.0	20.5	34.9
10	8.4	7.0	22.0	37.4

The major market area for coal transported via the approved TRRC lines (and the Western Alignment) will be the upper Midwest and Great Lakes regions, including Minnesota, North Dakota, Wisconsin and Michigan, as well as lakeside power plants and industry as far east as Buffalo, New York. Sub-bituminous coal available in the northern Powder River Basin is currently being used as a base fuel supply, tested at various power plants for long term consideration or scheduled for near future tests within this area. The coal generated in the upper Powder River Basin and transported over TRRC's line is and will be utilized in existing, expanded or new electric utility generating plants.

During the early years, TRRC anticipates that its coal traffic will primarily originate from the Spring Creek and Decker mines. With the completion of construction and commencement of railroad operations, TRRC anticipates that the development of coal reserves adjacent to the line -- e.g., the Montco mine and other planned mines in the Ashland, Montana area -- will be expedited, with all of this newly developed coal originating on the Tongue River Railroad.

(c) The purposes of the proposal and explanation of why the public convenience and necessity require or permit the proposal.[9]

TRRC's purpose in submitting this Application is to receive Board authority to construct and operate over the Western Alignment rather than the Four Mile Creek Alternative for the southernmost portion of its approved Ashland to Decker extension. TRRC's line between Miles City and Ashland, Montana, and TRRC's extension from Ashland to Decker, Montana,

[9] As discussed below, the language of 49 C.F.R. § 1150.4(c) does not reflect the applicable statutory standard as modified by the Interstate Commerce Commission Termination Act of 1995.

including the Four Mile Creek Alternative, have previously been held to be consistent with the public convenience and necessity. See TRRC I; TRRC II. Moreover, the Interstate Commerce Commission Termination Act of 1995 ("ICCTA") amended the governing statutory provision in 49 U.S.C. § 10901(c) so that the Board must approve this construction Application unless it finds that the construction is "inconsistent with the public convenience and necessity."[10]

As described in more detail below, the Western Alignment presents significant environmental, economic and operating advantages over the Four Mile Creek Alternative and thus is plainly consistent with the "public convenience and necessity." Construction of the Western Alignment will mitigate environmental concerns associated with the Four Mile Creek Alternative and will allow TRRC to provide superior service to that which it would be able to provide over the presently approved routing.

A. Environmental Advantages

The Western Alignment offers substantial environmental advantages over the Four Mile Creek Alternative. First, the Western Alignment is 12.1 miles shorter than the Four Mile Creek Alternative and has less steep gradients so the risk of derailments and grade crossing accidents on the Western Alignment is substantially reduced. Fuel usage and air emissions are substantially reduced as well.

Second, the Western Alignment will require significantly fewer acres of land to be acquired for the railroad right of way. Comparing the Western Alignment to the Four Mile Creek Alternative, the total ROW necessary for the line from the point where the two lines deviate will

[10] Under the prior law, such approval could be granted only if the Commission found that "present or future public convenience and necessity require[d] or permit[ted]" it.

decrease from 636 acres to 468 acres. As a result, fewer acres of vegetation and wildlife habitat will be lost if the Western Alignment is constructed in lieu of the Four Mile Creek Alternative.

Third, the Western Alignment will have dramatically less direct impact on affected landowners. The number of affected landowners decreases from 15 to 13 using the Western Alignment instead of the Four Mile Creek Alternative. As for impacts on particular landowners, the Western Alignment locates the line further west of the Tongue River and approximately 3,500 feet west of the Hosford residence and ranch headquarters, which is directly impacted by the Four Mile Creek Alternative. TRRC has already notified the two additional landowners that would be impacted by relocation of the line from the Four Mile Creek Alternative to the Western Alignment.

Fourth, the Western Alignment affects fewer possible wetland impact locations. Noise from construction and operation of the Western Alignment will impact fewer residences and churches.

B. Economic Advantages

Approval to construct and operate the Western Alignment will result in a rail line that has no severe adverse grades and one that is approximately 12.1 miles shorter than the Four Mile Creek Alternative. This will result in significant economic benefits to TRRC, including annual reductions in locomotive capital costs (since fewer helper units will be required), locomotive maintenance costs, car capital costs, fuel costs, mainline track maintenance, and train labor costs. These benefits are estimated to yield annual cost savings of approximately $2.8 million in comparison to the costs associated with the Four Mile Creek Alternative in the initial year of operation, and greater savings in later years, as traffic volume increases. In addition, the

Western Alignment will offer significant track maintenance savings due to its fewer curves and less steep gradients. The economic benefits associated with the Western Alignment are described in greater detail in the Leilich Verified Statement in Appendix A.

C. Operating Advantages

Approval of the Western Alignment also will yield significant operating advantages. Operating unit coal trains over the Western Alignment will be safer and more efficient than over the Four Mile Creek Alternative because the new route contains nineteen fewer horizontal curves and eliminates two operationally adverse grades. Indeed, the total rise against loads decreases from 697 feet with the Four Mile Creek Alternative to 64 feet with the Western Alignment, while the total fall against loads decreases from 1,020 to 355 feet. Moreover, the maximum uphill grade (against loads) reduces from 1.53 to 0.45 percent with the Western Alignment, while maximum downhill grade (down hill while loaded) declines from 2.31 to 0.93 percent.

The elimination of the severe adverse grades associated with the Four Mile Creek Alternative will provide for safer railroad operations. In February 1997, in response to several derailments of loaded freight trains on descending grades greater than two percent, the Federal Railroad Administration ("FRA") issued Safety Bulletin 97-2, which recommends specific operating procedures for descending grades of two percent or more.[11] The FRA-recommended operating procedures, which are set forth in Section 4.4 of Exhibit H, include stopping any train that reaches five miles per hour or more than its authorized maximum speed using emergency

[11] Federal Railroad Administration, Notice of Safety Bulletin 97-2, 62 Fed. Reg. 9,014-15 (1997).

application of air brakes, securing the stopped train using hand brakes, and holding the train in place without further movement until it has been inspected by a designated railroad employee. Adherence to Safety Bulletin 97-2 would be required with respect to operations over the Four Mile Creek Alternative, but would not be with the Western Alignment since it does not have any grades even approaching two percent.

(d) As Exhibit C, a map which clearly delineates the area to be served including origins, termini and stations, and cities, counties and states. The map should also delineate principal highways, rail routes and any possible interchange points with other railroads. If alternative routes are proposed for construction, the map should clearly indicate each route.

Exhibit C, attached hereto, includes maps of the Western Alignment (Exhibit C.1) and TRRC's overall line from the Spring Creek/Decker area to Miles City (Exhibit C.2).

(e) A list of the counties and cities to be served under the proposal, and whether there is other rail service available to them. The names of the railroads with which the line will connect, and the proposed connecting points; the volume of traffic estimated to be interchanged; and a description of the principal terms of agreements with carriers covering operation, interchange of traffic, division of rates, or trackage rights.

The Western Alignment would serve the following counties and communities, all of which are located in the State of Montana:

- Rosebud County
- Big Horn County

None of the communities located on or near the proposed line currently have rail service. Rosebud County benefits from rail service by means of a BNSF branch line to Colstrip. TRRC will connect with BNSF's line at the southernmost terminus of the Western Alignment and with

BNSF's main line at Miles City, where virtually all traffic moved over the Western Alignment will be interchanged with BNSF.

As of the date of this Application, it has not yet been decided whether BNSF will conduct the actual operations over the TRRC line or whether TRRC will conduct its own operations. In the event TRRC conducts its own operations; TRRC would expect to reach agreement with BNSF on matters concerning the division of rates, trackage connections, interchange of traffic and operations. With respect to the interchange of traffic, TRRC would expect to conclude arrangements with BNSF in accordance with the standard interchange rules of the Association of American Railroads. If agreements on the division of rates could not be reached, TRRC would offer independent coal transportation contracts to Miles City from which coal shippers would negotiate independent transportation contracts with BNSF to the destination or other connections.

(f) The time schedule for consummation or completion of the proposal.

Construction of the Western Alignment should take approximately 21 months over three years, assuming a construction season of seven months per year. TRRC anticipates that the Western Alignment will be constructed in conjunction with the entire TRRC line from Miles City to Decker, and that the Western Alignment should be completed and the entire line ready for transportation by late 2001 or early 2002.

(g) **If a new line is proposed for construction:**

(1) The approximate area to be served by the line.

(2) The nature or type of existing and prospective industries (e.g., agriculture, manufacturing, mining, warehousing, forestry) in the area, with general information about the age, size, growth potential and projected rail use of these industries.

(3) Whether the construction will cross another rail line and the name of the railroad(s) owning the line(s) to be crossed. If the crossing will be accomplished with the permission of the railroad(s), include supporting agreements. If a Commission determination under 49 U.S.C. 10901(d)(1) will be sought, include such requests.

(1) The Western Alignment will serve the coal mining area in Big Horn County, Montana near the existing Decker and Spring Creek mines. In addition, it will also serve coal mining areas in Wyoming by means of traffic interchanged with BNSF. The Western Alignment will constitute the southernmost portion of the Tongue River Railroad, which will serve an approximately 1,000 square-mile area that includes portions of Custer, Rosebud, Big Horn and Powder River Counties, Montana.

(2) At present, the area to be traversed by the Western Alignment is used primarily for ranching, an industry not generally served by rail transportation. However, there are three existing coal mines -- Spring Creek, West Decker and East Decker -- near the southernmost terminus of the Western Alignment that will be served by the TRRC. These mines are dependent upon rail transportation in order to transport their coal to end users.

In 1996, the Spring Creek, West Decker and East Decker mines collectively produced approximately 21.2 million tons of compliance coal. Coal production at the three mines is expected to increase to approximately 26.4 million tons in 2000 and 31.4 million tons in 2005,

before reducing to approximately 16.4 million tons per year between 2010 and 2015. Output from these mines is anticipated to decline following the year 2005 because capacity at the West Decker and Spring Creek mines is expected to be exhausted in the years 2005 and 2010, respectively. However, the East Decker mine is expected to undergo further development with peak production of 16.4 million tons per year being achieved by 2005 and continuing through 2015. Estimated Montana compliance coal production capacity and potential coal demand is set forth in Tables 1 and 2 on page 3 of the Verified Statement of Ronald L. McMahan in Appendix A.

In addition, new mines are expected to be developed in the near future in the area to be served by the TRRC. These mines include the CX Ranch and mines in the Young's Creek area, both of which are near the existing mines in Decker and Spring Creek. New mines are also expected to be developed in the area near Ashland, including the Montco mine and mines in the Otter Creek area.

(3) The Western Alignment will not cross another rail line.

OPERATIONAL DATA (Section 1150.5)

(a) As Exhibit D, an operating plan, including traffic projection studies; a schedule of the operations; information about the crews to be used and where employees will be obtained; the rolling stock requirements and where it will be obtained; information about the operating experience and record of the proposed operator unless it is an operating railroad; any significant change in patterns of service; any associated discontinuance or abandonments; and expected operating economics.

Exhibit D, attached hereto, is the Operating Plan that TRRC expects to implement if TRRC itself conducts the operations over the line. Because it was not feasible to develop an

operating plan for the Western Alignment in isolation, apart from the TRRC line that is already approved, the Operating Plan addresses TRRC's plan to operate on the entire Miles City to Decker line. The Operating Plan is further explained in the Verified Statement of Robert H. Leilich in Appendix A.

As previously noted, the operations over the TRRC line may actually be conducted by BNSF, under an agreement with TRRC. The parties are presently in negotiations, but no agreement with respect to potential BNSF operations has yet been reached. However, BNSF's general plans for operations over the TRRC line, in the event of such an agreement, are set forth in the Verified Statement of Thomas G. Kraemer, Vice President Coal and Grain Operations of BNSF, in Appendix A.

No associated discontinuances or abandonments are expected in connection with the construction of the Western Alignment.

FINANCIAL INFORMATION (Section 1150.6)

(a) The manner in which applicant plans to finance construction or acquisition, the kind and amount of securities to be issued, the approximate terms of their sale and total fixed charges, the extent to which funds for financing are now available, and whether any of the securities issued will be underwritten by industries to be served by the proposed line. Explain how the fixed charges will be met.

TRRC presently plans to finance the construction of the proposed railroad by: (1) raising partners' capital from the existing partners in the approximate amount of $105,000,000; and (2) the private placement of long term debt secured by plant, property and contracts for the movement of coal by the railroad.

Based on the information set forth in the Operating Plan (Exhibit D), TRRC anticipates negotiating a privately placed construction loan and first mortgage debt instrument to finance approximately $218,000,000 of the estimated construction costs. The privately placed debt would be at competitive market interest and would have various maturities and other financial inducements to the prospective lenders. The terms of such debt will depend on market conditions at the time of issuance. For purposes of this Application, coverage of fixed charges as set forth in Exhibit F is based on the assumption that the interest expense during the first two years of operations will be deferred and capitalized, and that the debt will be financed under a credit facility provided by a syndicate of commercial or institutional lenders.

Fixed charges will be met through cash generated from railroad operations. Attached hereto as Exhibit G is a Pro Forma Statement of Income and Pro Forma Cash Flow Statement for the first ten years of operations. As that exhibit shows, cash generated from operations should be sufficient to adequately cover TRRC's interest expense and loan principal payments.

Chase Securities, Inc. has evaluated the financial feasibility of the Tongue River Railroad and has concluded that, subject to market conditions at the time of issuance, financing the TRRC would be an attractive investment opportunity for commercial and institutional lenders. See Appendix A, Verified Statement of Francis M. Cox, III.

(b) As exhibit E a recent balance sheet. As exhibit F, an income statement for the latest available calendar year prior to filing the application.

Attached hereto are Exhibit E, a recent balance sheet for TRRC as of March 31, 1998, and Exhibit F, an income statement for TRRC as of December 31, 1997, the latest available calendar year prior to filing the Application.

(c) A present value determination of the full costs of the proposal. If construction is proposed, the costs for each year of such construction (in a short narrative or by chart).

The present value cost of constructing the Western Alignment is approximately $92,612,496. A chart breaking out the projected construction costs for the Western Alignment by year is Attachment 1 to the Hadley Verified Statement in Appendix A.

(d) A statement of projected net income for 2 years, based upon traffic projections. Where construction is contemplated, the statement should represent the 2 years following completion of construction.

The estimated net income for TRRC (of which the Western Alignment is a part) for the first ten years following the completion of construction is presented in Exhibit G.

ENVIRONMENTAL AND ENERGY DATA (Section 1150.7)

As exhibit H, information and data prepared under 49 C.F.R. Part 1105, and the "Revision of the National Guidelines Environmental Policy Act of 1969," 363 I.C.C. 653 (1980), and in accordance with "Implementation of the Energy Policy and Conservation Act of 1975," 49 C.F.R. Part 1106.

Pursuant to 49 C.F.R. § 1150.7, Exhibit H is attached hereto. In addition, TRRC has retained a third party contractor pursuant to 49 C.F.R. § 1105.10(d) to work with SEA in preparing any necessary environmental documentation for the Western Alignment.

ADDITIONAL SUPPORT (Section 1150.8)

Any additional facts or reasons to show that the public convenience and necessity require or permit approval of this application.

The purpose of the Application is to obtain authorization for the construction of one short segment of a previously-approved line over a route that will permit more efficient, economical operations while resulting in less environmental impact than the route that has already been approved. This would be a win-win situation in any circumstance, and given the increasing importance to the Nation of a ready supply of low-sulfur coal -- produced and transported as economically as possible -- it is clear that the Board should grant the application as expeditiously as possible.[12]

BNSF, which will originate and terminate much of the coal traffic that will move over the TRRC line, has weighed in with its strong support. Gregory T. Swienton, BNSF's Senior Vice President, Coal and Agricultural Commodities, describes the importance of the additional rail capacity that will be provided by the TRRC line, and explains the critical importance of the Western Alignment to the success of the project. In addition, Larry A. Parker, Director, Asset Management for BNSF, and David J. Mahle, BNSF's Director of Capacity Planning, provide BNSF's perspective on the operational and economic advantages of the Western Alignment. Mr. Mahle, after describing the substantially lower operating costs

[12]As previously noted, since the time the Board's regulations were published, Congress has amended the Interstate Commerce Act to provide that it is no longer necessary for an applicant to prove that a rail construction proposal is required or permitted by the public convenience and necessity. As amended, the statute now requires that a construction application be approved unless opposing parties prove that it would be inconsistent with the public convenience and necessity. See 49 U.S.C. §10901(c).

associated with the Western Alignment, ranging from lower fuel costs to fewer numbers of locomotives, points out that "the ability to operate heavy axle load trains at the lowest cost is essential for competitive transportation service." Mahle V.S. at 3. Mr. Mahle goes on to explain that these lowest costs "benefit BNSF, our utility customers and partners, and in the long run, the power consuming public." Id.

These public benefits have been recognized by the key Montana public officials. The Governor, both United States Senators, and Montana's sole U.S. Congressman have submitted statements strongly supporting the Western Alignment proposal. See Appendix B. Montana Governor Marc Racicot notes that his office has performed an "in-depth study and evaluation" of the TRRC project. On the basis of that study, he expresses his "serious concerns" with the selection of the Four Mile Creek Alternative, and his judgment that the Western Alignment would be "a safer, shorter route with a more favorable grade," which "would restore the economic and operating efficiencies originally anticipated" but at the same time "avoid various environmental issues that have been raised." See Appendix B, Letter from Governor Marc Racicot to Honorable Linda Morgan.

Senator Conrad Burns has expressed his "strong support" for the application, stating his belief that "approving the Western Alignment will allow the design and construction of a transportation line from Miles City Montana to Decker which will represent the state-of-the-art, emphasizing both efficiency and safety." See Appendix B, Letter from Senator Conrad Burns to Linda Morgan. Similarly, Senator Max Baucus states that "[a]t this time, I am convinced that the Western Alignment will be more efficient and dependable." See Appendix B, Letter from Senator Max Baucus to Linda Morgan. And Congressman Rick Hill states: "I have reviewed the

17+mile Western Alignment route and believe that this segment will provide the operating and economic efficiencies envisioned by the original route, without the environmental concerns." See Appendix B, Letter from Rep. Rich Hill to Linda Morgan.

In addition, the Montana Taxpayers Association has weighed in with a supporting statement, expressing their belief that selection of "the Western Alignment is a better route for Montana" and that it should "contribute to a safer and longer lasting operation of the railroad." Appendix D, Verified Statement of Dennis E. Burr.

Finally, the shippers with the most immediate interest in TRRC -- utilities that expect to receive coal moving over the TRRC line -- strongly support this application, emphasizing the operational advantages and lower costs associated with the Western Alignment. See Appendix C (verified statements of witnesses for Midwest Energy Resource Company, Minnesota Power & Light Company, Commonwealth Edison Company, Northern States Power Company and Detroit Edison). As articulated by the President of Midwest Energy, these shippers support the application because they are convinced that the Western Alignment "routing will provide the most favorable operating characteristics which will in turn support reducing the cost of electricity to the many residential and commercial customers served by our electric utility customers." Appendix C, Verified Statement of Fred Shusterich at 1-2.

NOTICE (Section 1150.9)

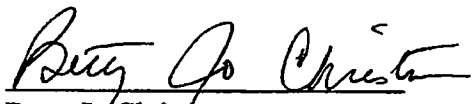
Summary of the proposal which will be used to provide notice under § 1150.10 (f).

Pursuant to 49 C.F.R. §1150.9, attached hereto as Exhibit I are drafts of a summary of the proposal which will be used to provide notice under §1150.10(f). Because TRRC is filing, simultaneously with this application, a request for a procedural schedule, the provision of §1150.10(f) requiring that the notice inform interested parties that they must advise the Board of their interest in the proceeding by the 35th day after the filing of the application is not applicable and could create confusion for the public. See Finance Docket No. 33407, Dakota, Minnesota and Eastern Railroad -- Construction and Operation (served March 11, 1998) at page 3. Accordingly, TRRC has prepared two summaries, both of which will be published in a newspaper of general circulation in each county in which the line is located. Exhibit I (A), which will be published within two weeks after the filing of the application, provides a summary of the application and advises that a separate notice will be published at a later date, advising parties as to the date on which their comments and evidence will be due. Exhibit I (B), which will be published in the same newspapers promptly after the Board issues an order establishing a procedural schedule, will repeat the summary information and advise parties of the date on which their comments and evidence must be filed.

CONCLUSION

For the reasons stated herein, TRRC respectfully requests that the Board grant it authority to construct and operate over the Western Alignment.

Respectfully submitted,



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Attorneys for Applicant
Tongue River Railroad Company

Dated: April 27, 1998

SIGNATURES, OATHS AND CERTIFICATIONS
OF APPLICANT'S GENERAL PARTNER
(SECTION 1150.10(c))

Tongue River Railroad Company

STATE OF MONTANA)
) ss:
COUNTY OF YELLOWSTONE)

TRANSPORTATION PROPERTIES LLP, a Montana Limited Liability Partnership, as General Partner of Tongue River Railroad Company ("TRRC"), a Montana Partnership, by its Manager, Wesco Resources, Inc., a Montana Corporation, by its President, Mike T. Gustafson, after being duly sworn, hereby deposes and says that TRRC, applicant herein, is authorized to file this Railroad Construction and Operation Application; that he has knowledge of the matters contained in this Application; and that the statements made in the Application are true and correct to the best of his knowledge and belief.

Mike T. Gustafson

Subscribed and sworn to before me on this 20th day of April, 1998.

Becky D. Berge
Notary Public

My Commission expires: 5/19/01

I, Becky S. Berge, hereby certify that I am Secretary of Wesco Resources, Inc. ("Wesco"), the Manager of Transportation Properties LLP, which is General Partner of TRRC, applicant herein, and that Mike T. Gustafson, President of Wesco, is duly authorized to sign and to verify this Application on behalf of Wesco.

Becky D. Berge

Becky S. Berge
Secretary

Dated this 20th day of April, 1998 at Billings, Montana.

CERTIFICATE OF SERVICE

I hereby certify that on this 27th day of April, 1998, a true and correct copy of the foregoing Application for Construction and Operation Authority was served by first class mail, postage prepaid, on all parties of record in Surface Transportation Board Finance Docket No. 30186 (Sub-No. 3), and on the following persons required by 49 C.F.R. § 1150.10(e):

The Hon. Marc Racicot, Governor
State of Montana
State Capitol
Room 204
P.O. Box 200801
Helena, MT 59620-0801

Marv Dye, Director
State of Montana
Department of Transportation
2701 Prospect Ave.
P.O. Box 201001
Helena, MT 59620-1001

Dave Fisher, Chairman
State of Montana
Public Service Commission
1701 Prospect Ave.
P.O. Box 202601
Helena MT 59620-2601

and on the following:

Gordon P. MacDougall
11025 Connecticut Avenue, N.W.
Washington, DC 20036

Kevin C. Brodar
Associate General Counsel
United Transportation Union
14600 Detroit Avenue
Cleveland, OH 44107

Highsaw, Mahoney & Clarke
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1050 17th Street, N.W.
Washington, DC 20036

Northern Plains Resource Council
2401 Montana Avenue
Billings, MT 59101

Joseph Guerrieri, Jr.
Josh S. Lichtblau
Guerrieri, Edmond & James
1331 F Street, N.W.
Washington, DC 20003

Steven H. Chestnut
Ziontz, Chestnut, Varnell, Berley & Slonim
Suite 1230
2101 Fourth Avenue
Seattle, WA 98121

James T. Mular
Chairman
Montana Joint Rail Labor
Legislative Council
440 Roosevelt Road
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Patrick L. Smith
Smith & Doherty, P.L.L.C.
815 E. Front -- Suite 3
Missoula, MT 59802

Jack R. Tuholske, P.C.
401 North Washington
P.O. Box 7458
Missoula, MT 59807

Joe Rodriguez
Attorney at Law
P.O. Box 61110
Santa Barbara, CA 93160

Fritz R. Kahn
Suite 750 West
1100 New York Avenue, N.W.
Washington, DC 20005-3934

Betty Jo Christian

EXHIBIT A

EXHIBIT A

CORPORATE RESOLUTION

[Not Applicable]

EXHIBIT B

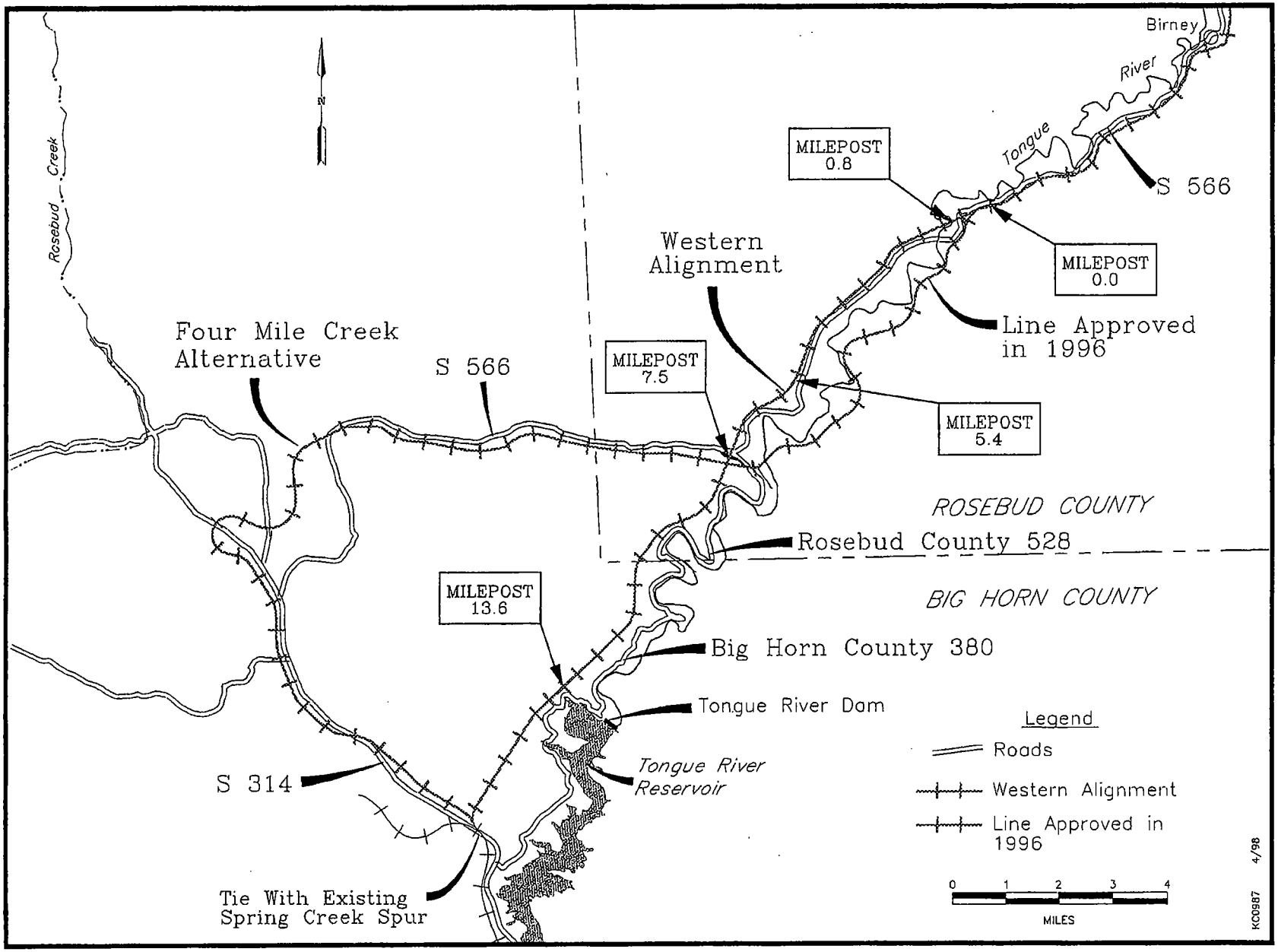
EXHIBIT B

RELEVANT AGREEMENTS

[Not Applicable]

EXHIBIT C

EXHIBIT C.1


Birney
River
Tongue
Rosebud Creek
MILEPOST 0.8
S 566
MILEPOST 0.0
Western Alignment
Line Approved in 1996
Four Mile Creek Alternative
S 566
MILEPOST 7.5
MILEPOST 5.4
ROSEBUD COUNTY
Rosebud County 528
BIG HORN COUNTY
MILEPOST 13.6
Big Horn County 380
Tongue River Dam
Tongue River Reservoir
S 314
Tie With Existing Spring Creek Spur
Legend
Roads
Western Alignment
Line Approved in 1996
0 1 2 3 4
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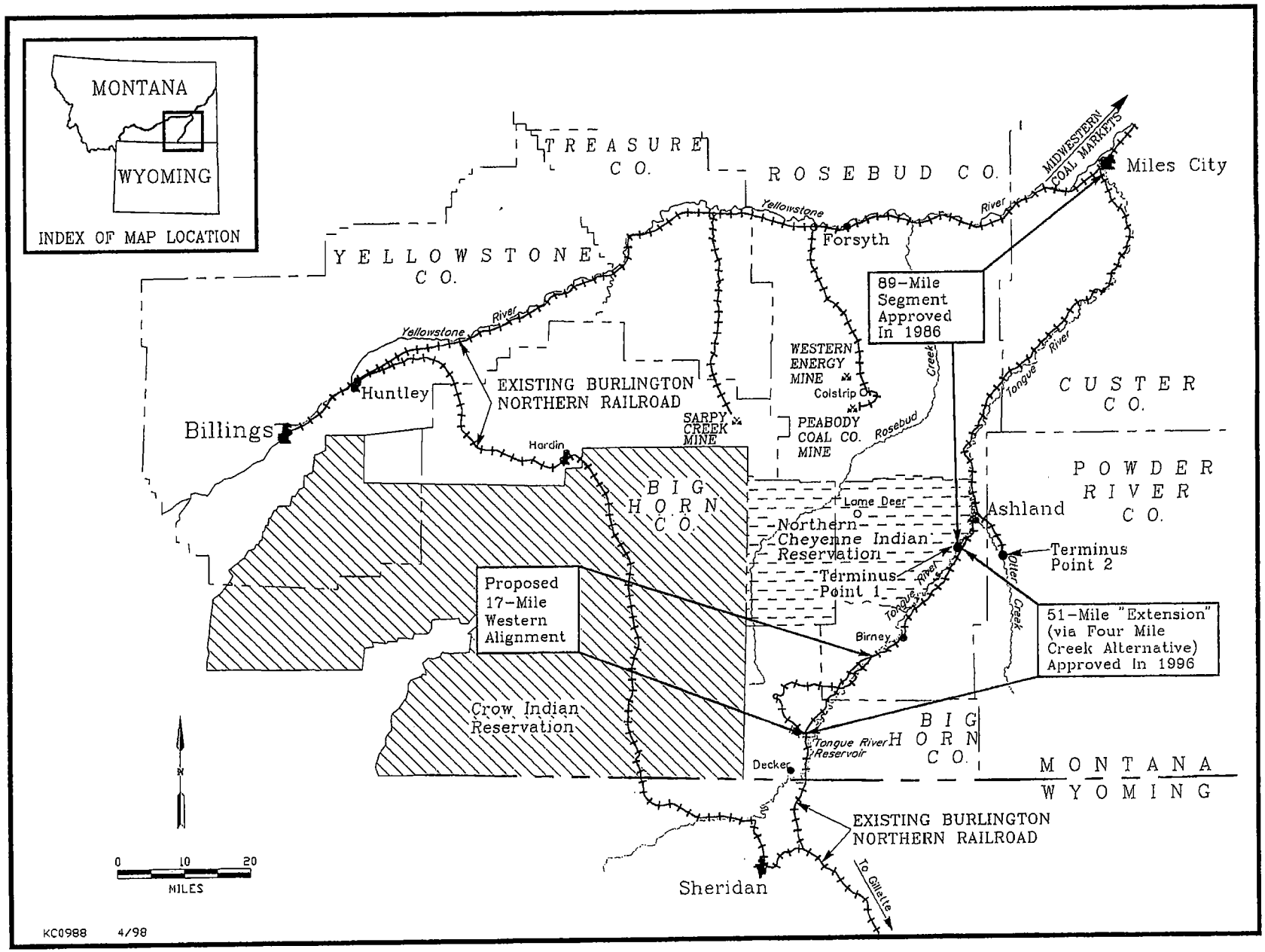
KC0987 4/98

EXHIBIT C.2


MONTANA
WYOMING
INDEX OF MAP LOCATION
TREASURE CO.
ROSEBUD CO.
YELLOWSTONE CO.
CUSTER CO.
POWDER RIVER CO.
BIG HORN CO.
BIG HORN CO.
MONTANA
WYOMING
Miles City
MIDWESTERN COAL MARKETS
Forsyth
Yellowstone River
89-Mile Segment Approved In 1986
WESTERN ENERGY MINE
Colstrip
Tongue River
Huntley
Billings
EXISTING BURLINGTON NORTHERN RAILROAD
SARPY CREEK MINE
PEABODY COAL CO. MINE
Rosebud Creek
Hardin
Lame Deer
Ashland
Northern Cheyenne Indian Reservation
Terminus Point 1
Terminus Point 2
Otter Creek
Proposed 17-Mile Western Alignment
51-Mile "Extension" (via Four Mile Creek Alternative) Approved In 1996
Birney
Crow Indian Reservation
Tongue River Reservoir
Decker
EXISTING BURLINGTON NORTHERN RAILROAD
To Gillette
Sheridan
N
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KC0988 4/98

EXHIBIT D

EXHIBIT D --

OPERATING PLAN

This Exhibit describes the railroad operating plan that the Tongue River Railroad Company (TRRC) plans to implement. The proposed operating plan is substantially similar to the operating plans submitted by TRRC in its prior, and now approved, applications in Finance Docket No. 30186 and Finance Docket No. (Sub-No. 2).

Line Description

TRRC will operate as a common carrier initially serving the Tongue River market area made up by the Spring Creek and Decker mines and other Powder River Basin coal traffic originating on The Burlington Northern and Santa Fe Railway (BNSF), as well as low sulfur, high BTU mines which will be constructed in the Ashland/Otter Creek area.

The Tongue River Railroad is designed as a single-track railroad running from Miles City, Montana to Ashland, Montana and on to the Spring Creek/Decker areas in southeastern Montana, a distance of approximately 120 miles.

The line begins just west of Miles City at approximately BNSF milepost 80. A small terminal is planned to be constructed south of Interstate 94, which will hold and process arriving or departing trains. It could also serve as the crew change and interchange point between the TRRC and BNSF.

By far the predominant commodity that will be carried by the approved approximately 120-mile TRRC rail line is subbituminous low sulfur coal from Montana and Wyoming. Much of this coal is currently produced from the Spring Creek/Decker mines and will

be produced from proposed surface mines in the Ashland area of southeastern Montana ("Tongue River Region"). Projections have been developed for volumes of coal to be transported by the TRRC, which are set forth in Table 1 of the Application.

Although electric utilities represent the prime demand potential for Tongue River coal, additional tonnages have been projected for industrial and export markets. The TRRC will move an estimated 26.4 million tons of coal in its initial stages of operation. Coal movement from the Spring Creek/Decker area to Miles City would begin as soon as construction is completed. A significant portion of the initial traffic moving over the TRRC is existing traffic originating at the Spring Creek and Decker (East and West) mines, plus lesser volumes of traffic from the Gillette, Wyoming area, of the Powder River Basin, nearly all of which currently moves along BNSF's Sheridan-Huntley (Jones Junction)-Miles City-Glendive main line. Routing via the TRRC line from Decker and Spring Creek to Miles City, as contrasted to the existing "around the horn" alignment utilized by BNSF, will save approximately 130-160 train miles in each direction, or 260-320 train miles per round trip.

An additional 20 to 30 million tons of coal can be expected to utilize the Tongue River Railroad as new Tongue River Region coal mines are developed. The volume of coal in the initial stages of operation will be approximately 26.4 million tons, rising, according to TRRC marketing reports, by the year 2005, to 32.7 million tons, and increasing to 43.3 million tons by 2015. A relatively minor volume of other commodities--such as grain and wood chips--may be transported by the rail line.

The primary market area for Tongue River Region coal is focused on the upper midwest and eastern United States, largely as a result of transportation constraints, competition

from other states such as Wyoming, utility deregulation, and passage of the Clean Air Act Amendments of 1990. The market projections for Montana coal were prepared by Resource Data International and are described in the Verified Statement of Ronald L. McMahan.

Traffic Projection Studies

Traffic Projection Studies developed for TRRC provide, in its first year of operation, for the transport of an estimated 26.4 million tons of coal, which represents 38.5 round trips per week, or an average of 5.5 trips per day. In the year 2005, an estimated 32.7 million tons of coal will be moved by the TRRC, requiring 47.5 round trips per week, or an average of 6.8 round trips per day. By the year 2015, this number is expected to rise to 43.3 million tons of coal, requiring 63 round trips per week, or an average of 9.0 round trips per day.

Rail and Design Specifications

The main track and sidings will be constructed with 136 lb. continuous welded rail (CWR). Track will be built on 12 inches of compacted granite ballast. Sub-ballast will consist of 12 or more inches of graded rock with a maximum allowable size of 3 inches. The railroad will handle BNSF's current gross car weights allowances of 286,000, and is designed to accommodate gross car weights of up to 315,000 pounds.

Initial design specifications for the railroad include the construction of seven passing sidings, each approximately 8,500 feet long (between clearance points), with number 20 turnouts on each end. Plant design will provide for capacity to meet TRRC's needs for a number of years. Capacity can be added in increments through the addition of new passing sidings or

extending existing ones. The 8,500 foot length is desirable to accommodate the potential of future increases in train size, and also will allow for comfortable stopping margins. Siding locations and the number of sidings will be based on minimizing train delays in both (particularly the loaded) directions. One of these sidings will be located on the Western Alignment.

In addition to passing tracks, additional set-out tracks will be constructed for set-out and storage of Maintenance-of-Way (MOW) equipment, bad-order cars, etc. At least one of these will be on the Western Alignment. Each set-out track will be at least 550 feet in length. A minimum length of 550 feet is needed to accommodate permanently-coupled carsets that may operate on this line. Set-out tracks will be provided at each double (passing) track location and at four additional locations along the main line.

Signals and Communications

Signal System: As proposed, the railroad will be dispatched and operated under a Track Warrant Control System using identical rules and procedures used by BNSF. Under this system, train control signals will be located only in advance of the facing points of main line power or spring switches. Depending on the type of switches selected, the approach signal (located a sufficient distance from the switch to allow safe stopping) will display an indication that the switch is secure (spring switch) or the track for which the switch is lined (main track or siding), and that the switch is secure. If a power switch is used, the approach signal will also indicate that the block (either siding or main track) is clear to the point where the siding rejoins the main track.

The home signal, located immediately in advance of the facing point of a passing

siding switch will confirm that the switch is lined and secure (spring switches) or indicate how the switch is lined at the other end of the siding or main track. No intermediate signals (between the approach and home signals) will be required.

Signal controls will involve coded track circuits in the vicinity of each passing siding, extending out to and slightly beyond each advance signal. Power will be provided by batteries, charged by solar power panels. No power or communication lines are proposed to be constructed along the TRRC's right-of-way.

At each end of the railroad, where it connects with the BNSF line, a home signal controlled by the BNSF dispatcher will indicate that it is safe to proceed onto the BNSF. At Miles City, it will also indicate that the switch to the BNSF is lined for a movement from the Tongue River Railroad. Similarly, home signals located on the BNSF will indicate that it is safe to proceed onto the Tongue River Railroad, and at Miles City, that the power switch is lined for the Tongue River Railroad. It is anticipated that the BNSF will dispatch the Tongue River Railroad from its dispatching center located in Fort Worth. It is also anticipated that the main line switch between the Tongue River Railroad and BNSF at Miles City will be remotely controlled by the same dispatching center.

The signal system and the operating rules and procedures under the Track Warrant Control System will conform to the best railroad industry practices to maximize safety to personnel and equipment. A full centralized traffic control (CTC) system with power switches and full complement of signals at each siding may be necessary in the future to control an increasing number of train movements as the traffic develops.

Propane switch heaters will be installed at all passing siding switches and at the

main line switch with the BNSF line in Miles City. The heaters will function automatically using state-of-the-art temperature and moisture sensors.

Hot box and dragging equipment detectors will be installed at appropriate locations. Advances in acoustical detection techniques may reduce or eliminate the number of infra-red detectors to be used. Detectors will be located at no less than 15 to 20-mile intervals. Reports of bad journals will be conveyed to the engineer through the use of wayside signals or via radio, depending on the best technology available at the time of construction. Set-out tracks for defective cars will be provided roughly every 10-20 miles of railroad main line.

Communication System: The communication system will consist of two radio frequency channels as assigned by the FCC in an application to be submitted prior to start up of operations. Repeater stations (signal boosters) will be located as appropriate to assure continuous communications with train crews with no signal loss under extremely adverse weather conditions. Repeater stations may be located every 10 to 20 miles, or less in some areas. All repeater stations will be battery powered, with batteries charged by solar panels. All other communications will be via commercial or leased telephone lines.

One frequency will be assigned strictly to train operations and track maintenance personnel. Another channel will be assigned for non-operating related uses.

Locomotives will have radios capable of communicating on TRRC's assigned frequency. Backup radios will be those installed on trailing locomotive units included in each train consist. The conductor on each train also will be provided with a hand-held portable radio for local communication when the conductor is not in the cab of the lead locomotive.

Employees

Final Design and Construction to Initial Operations to Full Operations: As the TRRC moves from its design-and-construction phase to its initial operations phase and then to its full operations phase, the number and skill-level of the personnel required also will change. The TRRC will require 6 contractor supervisors to oversee work during the design/build construction phase.

Initial (first year) operations will require a staff of about 79-80 people, as shown in Table 1, below. Supervision of the railroad will be under the jurisdiction of a general manager and two trainmasters/road foremen of engines. All three people will share supervision of operating employees, covering for each other on vacation, personal days, holidays, weekends, etc. Additional operating supervision will be added at a later time if the need develops.

TABLE 1
ESTIMATE OF TRRC EMPLOYEES BY POSITION - INITIAL YEAR OF OPERATIONS

POSITION	NUMBER OF EMPLOYEES	POSITION	NUMBER OF EMPLOYEES
Train Crew Members	38.4	Administrative	
General Manager	1	Administrative Assistant	2
Supervising Trainmasters	2	Clerical and Office Staff	6
Equipment Maintenance		Maintenance of Way (Miles City)	
		Track Supervisor	1
Foreman and Assistant	2	Foreman	2
Diesel Mechanics	2	Crew	4
Electricians	2	Maintenance (Ashland)	
Welder	1	Section Foreman	1
Mechanic Helper	2	Section Gang	5
Carmen/Inspectors	5.5	Track Inspectors	2
Signal/Communication Technician	1		
TOTAL	79-80		

Maintenance-of-Equipment employees will consist of one foreman and one assistant, two diesel mechanics (who will also service MOW equipment), two electricians, one welder, and two mechanic-helpers, in addition to five to six carmen/inspectors. A signal maintainer/communication technician for maintenance-of-railway crossing signals and communications hardware will also be necessary. Some non-operating positions may be staffed by people from contractors which provide these services on a commercial basis, or with part-time employees.

Maintenance of Way (MOW) facilities will be maintained at Miles City and staffed by a track supervisor, two foremen, two machine operators, and two helpers. A supporting MOW facility in Ashland will include a section foreman and a section gang of 5 people. All or certain MOW activities may be contracted out to a third party offering to provide

these services. Most MOW activities on the Western Alignment will be handled out of Ashland. If not contracted out to a third party, about 15 additional employees -- mostly laborers -- would be required. (The pro formas assume that program maintenance will be contracted out to a third party.)

Two track inspectors will be sufficient for the railroad during the early years and initial traffic levels. A third and fourth inspector, as well as a third section gang, will be added as the plant begins to age and the traffic to increase.

Finally, a headquarters, or administration, staff of six people, not counting the general manager, will be required to handle accounts payable, accounts receivable, payroll, purchasing, inventory management, revenue accounting, and car accounting. Preparation of checks and payroll accounting, revenue accounting and car accounting largely will be contracted out.

TRRC will require about 19 train crews (38 operating employees) for initial traffic levels of 26.4 million tons of coal per year. Crews will increase as tonnage rises.

As currently planned, one carman/inspector will be on duty around the clock, for inspections to insure safe operations on the TRRC. The carman/inspector will also make minimum running repairs (occasional replacement of brake shoes or air hoses) and inspect from a four-wheeled, self-propelled cart. If significant train inspections are performed, more qualified inspectors/carmen will be available around the clock. Since only a nominal amount of time will be involved in inspecting trains, these inspectors will be assigned other duties when trains are not being inspected.

Administration of train operations will be as paperless as possible. Advance train

consists (wheel reports) will be received electronically from BNSF and conveyed to the BNSF or the mines in the same manner. Electronic data interchange (EDI) procedures will be established so that only minor manual editing or addition of supplementary data is needed to maintain computer based files of all movements, transactions, and operations of the railroad. EDI activities and other computer based systems would include interchange records, locomotive activity and movements, car accounting, BNSF and customer inquiries, revenue accounting, equipment inventory, track inventory, payroll, accounts payable, expense accounting, and all other management information system needs. Initially, use will be made of third party services for some activities (car accounting, payroll, tracing, etc.) with the balance handled by micro computers (PC's). Some of the third party services may be brought in-house in the future, should economics warrant.

The skills required for many of the semi-skilled positions can be acquired in a reasonably short time. A large number, if not all, of these positions probably can be filled from within the local labor market. As the traffic levels increase, additional employees gradually will be required. These additional labor requirements will be filled largely from the area labor markets.

Rolling Stock Requirements and Source

Rolling stock owned or leased by the TRRC will be limited primarily to work equipment and medium power locomotives, as BNSF locomotives most likely will be used for pulling the coal trains. Except for helping trains, the TRRC will probably use no more than two or three units for work trains, emergencies, special trips, and other purposes. Rebuilt 4-axle,

lower-horsepower locomotives should be adequate for this purpose. Approximately fifteen ballast cars, two or three flat cars, and ten or twelve box cars will be sufficient to handle company material. It is also possible that some or all support power and rolling stock may be supplied by contractors.

Coal trains will range from 104 to 125 cars, and likely be powered by two six-axle, 4,000 plus horsepower BNSF supplied locomotives. TRRC will provide two helper units plus one spare to assist trains out of Spring Creek/Decker. Simulations based on CSI's Train Performance Calculator confirm that two helper units are required to help lift heavy coal trains up the 1.1+ percent gradient departing Spring Creek.

Equipment and Facilities Needed

The TRRC is proposing to construct new facilities near BNSF tracks southwest of Miles City. Terminal facilities will include facilities for train and engine crews, headquarters operation, limited TRRC equipment servicing and maintenance, and MOW activities. No fueling facility will be required. Interchange inspections likely will be carried out at Glendive, eliminating the need for full inspections in Miles City. The TRRC will provide an inspector around the clock to make inspections which ensure safe operations on the TRRC and to make minimum running repairs (such as replacing worn brake shoes and air hoses). Major preventive maintenance, major repairs, overhauls, and the rebuilding of locomotives will be assigned to an outside contractor.

The majority of the freight cars used by the TRRC will be owned by shippers or by other railroads. The TRRC may provide some open-top hoppers or high-side gondolas to

replace those cars that are "bad-ordered" or seriously damaged on-line. These cars will be purchased or leased from major freight car manufacturers.

There will be minimal switching at the Miles City terminal. With adequate space, TRRC's Miles City terminal will be ideal as a place to inspect and switch out for maintenance and repair, in conjunction with a private car repair facility in Miles City. Empty private coal cars will be inspected thoroughly, marked for repair or preventative maintenance, and switched in and out of empty trains for maintenance as close as possible to the point of loading.

Office facilities at Miles City will be located near the BNSF connection on the west side of town. The main office area will provide space for the general manager, the office manager and clerical forces. The business and accounting functions such as payroll, billing, collection, and preparation of reports will also be located in this building. The communications office will contain the centralized radio and telephone communication equipment.

The Miles City office will be the round trip point for the train and engine crews; therefore, a crew locker room is planned at this location. Others, such as office employees, MOW section gangs, and signal and communication personnel, will also use this facility. Lunch room and welfare facilities will be provided for all employees who work in this area.

Maintenance-of-Way

MOW headquarters will be in Miles City, with some supporting facilities in Ashland. Ashland is the proposed location for basing an additional section gang and a signal maintainer. The Western Alignment will be served primarily out of Ashland.

To safely operate loaded coal trains at 50 MPH, the main TRRC line will be

maintained to Class IV standards, as outlined in the Code of Federal Regulations (49 CFR 123). In the early years of operation, a minimum program of MOW will be required and for the first five to ten years, some program maintenance will be contracted out.

The railroad will be constructed of new materials and initially will require a minimum amount of maintenance. Surfacing is the anticipated exception. Settlement of the newly constructed railroad can be expected because of the type of traffic to be handled (143 gross ton coal cars) and spot surfacing will be required during the first year of operation. Spot surfacing can be performed by a contractor or by a section gang. This gang would consist of a foreman and two machine operators.

Safety, Experience, and Record Of Operator

The volume of traffic (traffic density), size of trains, and operating speeds require that TRRC develop and implement a safety program for all employees consistent with the railroad industry's highest standards. In addition to an on-going inspection and maintenance program to ensure safety of equipment, track, and structures, a formal training and safety indoctrination program will be developed for employees.

The TRRC's staff, which will supervise and control operation, will consist of experienced and knowledgeable operating personnel with extensive railroad experience. During the design-and-construction phase, the TRRC will develop and implement a comprehensive safety program for all its employees. This safety program will include, but not be limited to, several elements:

- an operating rule book that follows contemporary procedures used by Class I

railroads, but modified as appropriate to meet specific TRRC operating requirements;

- a book of safety, radio, and general rules;
- a book of air brake and train handling rules;
- a safety training program and the maintenance of accurate personnel records reflecting training and testing in all of the above rules;
- a program for continual unannounced safety tests (testing operating personnel; simulated emergency or unsafe conditions);
- a plan for periodic re-training, testing, and certification of locomotive engineers;
- a similar plan for other train employees and non-operating personnel;
- a plan for periodic physical examinations;
- disciplinary procedures and guidelines for rule infractions.

Employees failing to pass the above-listed examinations will be prohibited from working in railroad operations.

The TRRC will adopt the latest edition of *The Consolidated Code of Operating Rules* before beginning its operations. In addition, rules governing equipment operation and handling will be adopted. The TRRC will hold operating-rules classes for all new operating personnel and for supervisors. All operating personnel and supervisors will be expected to pass a required operating examination and an equipment handling examination. Periodic equipment operation and equipment handling classes and examinations will also be established.

TRRC also anticipates the purchase of time on a train-performance simulator (TPS). This simulator would be used to develop a train-handling plan and to instruct the main operating supervisory personnel in the safe handling of empty and loaded coal trains. Training of train and

equipment crews will be accomplished both by on-the-job training and formalized instruction on a TPS. Engineer certification and re-certification may be performed on the simulations or on the road, as rules and regulations permit.

TRRC will develop an operating timetable and special instructions that would be used to govern the movement of trains on the rail line, the time and location of temporary slow orders, and other conditions which may effect the movement of trains. Because of the climate in which the railroad operates, there will be additional special instructions governing operations in severe cold and snow conditions. All new employees will be instructed in the meaning and the application of the timetable and the special instructions. Periodic examinations will be required of all personnel to determine the employees' knowledge of the instructions. Employees failing to pass these examinations will be prohibited from working in railroad operations.

The Pattern of Service

The pattern of service proposed in this modified operating plan differs from the originally approved proposal in that the initial service will be focused on operating mines at Spring Creek and East and West Decker. As additional Tongue River Region mines open, new service patterns will be developed to ensure that all mines are adequately served. However, the TRRC operation will remain a standard unit-train operation, commencing from Miles City to the mine sites and then returning to Miles City.

Contingencies

TRRC's management will make contingency plans for problems that might occur.

While unable to justify the cost of purchasing standby emergency equipment, TRRC will have arrangements with owners of heavy duty cranes and other re-railing equipment and will know the approximate amount of time necessary for such equipment to reach a site. Emergency procedures will be planned in advance for derailments, heavy snowfalls, major washouts and other disasters that cannot be handled solely by TRRC's equipment. TRRC will also provide state police, local fire departments, and other emergency response teams with maps and knowledge of access points prior to the start-up of the railroad.

Associated Discontinuance or Abandonments

The TRRC construction application does not contemplate any discontinuance of service or abandonments.

Expected Operating Economies Associated with Western Alignment

Utilization of the Tongue River Railroad will result in lower operating economies on the basis of saving between 130-160 one-way miles on a shipment to the Upper Midwest alone. This translates into savings on fuel, locomotive maintenance, labor, and track maintenance just to name a few areas. Estimated avoidable savings associated with the Western Alignment are summarized in Attachment 1 to the Verified Statement of Robert H. Leilich.

Avoidable costs in the categories shown in Attachment 1 to the Verified Statement of Robert H. Leilich (locomotive and car capital, equipment maintenance, track maintenance, fuel, and labor) total about $11.7 million for the Western Alignment and about $14.5 million for the Four Mile Creek Alternative -- a net annual savings of approximately $2.8 million. Assuming an

$8 million incremental capital cost to build the Western Alignment, this $2.8 million annual savings over an assumed period of 15 years (for purposes of determining the rate of return to TRRC) yields an rate of return of about 35 percent. Although some of the car capital and maintenance cost savings accrue to owners of private cars, this fact does not alter the clearly sound economics of the Western Alignment as the most appropriate route for the TRRC.

EXHIBIT E

TONGUE RIVER RAILROAD CO.
BALANCE SHEET
MARCH 31, 1998

ASSETS:	
CASH	37,102.45
CAPITALIZED COSTS	4,089,112.01
TOTAL ASSETS	4,126,214.46
LIABILITIES:	
ACCOUNTS PAYABLE	249,687.52
PARTNERS' CAPITAL:	
TRANSPORTATION PROPERTIES LLP	4,325,750.69
TONGUE RIVER HOLDINGS, INC.	26,685.20
CURRENT YEAR NET LOSS	(475,908.95)
TOTAL PARTNERS' CAPITAL	3,876,526.94
TOTAL LIABILITIES & PARTNERS' CAPITAL	4,126,214.46

EXHIBIT F

TONGUE RIVER RAILROAD COMPANY
INCOME STATEMENT
CALENDAR YEAR 1997

INCOME:	
INTEREST INCOME	398
EXPENSE:	
FINANCIAL/MARKETING SUPPORT	49,600
LEGAL	99,929
ENVIRONMENTAL	19,023
OPERATING COST ANALYSIS	5,000
GOVERNMENT & PUBLIC AFFAIRS	10,563
MANAGEMENT FEES	262,552
DIRECT EXPENSE	14,567
TRAVEL/M&E	52,837
TOTAL EXPENSE	514,071
NET LOSS	(513,673)

EXHIBIT G

EXHIBIT G

TONGUE RIVER RAILROAD COMPANY
PRO FORMA STATEMENT OF INCOME

Year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
REVENUE										
Freight Revenue	$46,447,600	$49,006,000	$52,342,800	$56,819,000	$56,294,600	$55,748,600	$55,202,600	$54,656,600	$54,403,000	$58,058,300
Other Income	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
TOTAL REVENUE & OTHER INCOME	**$46,447,600**	**$49,006,000**	**$52,342,800**	**$56,819,000**	**$56,294,600**	**$55,748,600**	**$55,202,600**	**$54,656,600**	**$54,403,000**	**$58,058,300**
OPERATING EXPENSES										
Maintenance of Way & Structures	$499,640	$530,051	$587,922	$758,905	$920,227	$1,071,530	$1,159,701	$1,298,366	$1,481,392	$1,667,663
Maintenance of Equipment	$4,092,160	$4,349,588	$4,601,616	$4,872,574	$4,870,928	$4,875,114	$4,855,870	$4,836,626	$4,820,292	$5,077,412
Subtotal Marketing & Sales	$5,500	$5,500	$5,500	$5,500	$5,500	$5,500	$5,500	$5,500	$5,500	$5,500
Subtotal Transportation	$6,198,690	$6,412,150	$6,604,713	$7,391,714	$7,273,740	$7,176,636	$7,057,560	$6,938,488	$6,860,664	$7,334,672
Subtotal General	$1,094,519	$1,132,585	$1,182,114	$1,237,009	$1,269,278	$1,286,715	$1,292,476	$1,297,815	$1,307,674	$1,361,229
Subtotal Other	$4,213,531	$4,390,827	$4,621,349	$4,962,702	$4,908,251	$4,852,530	$4,792,000	$4,733,473	$4,695,428	$4,975,755
TOTAL OPERATING EXPENSES	**$16,104,040**	**$16,820,701**	**$17,603,216**	**$19,226,404**	**$19,247,925**	**$19,268,024**	**$19,163,107**	**$19,110,270**	**$19,170,950**	**$20,422,232**
EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION & AMORITIZATION	**$30,343,560**	**$32,185,299**	**$34,539,584**	**$37,590,596**	**$37,046,675**	**$36,480,576**	**$36,039,493**	**$35,546,330**	**$35,232,050**	**$37,636,068**
Depreciation and Amortization	$7,742,648	$7,742,648	$7,742,648	$7,742,648	$7,742,648	$7,733,648	$7,729,148	$7,729,148	$7,729,148	$7,724,484
EARNINGS BEFORE INTEREST & TAXES	**$22,600,912**	**$24,442,651**	**$26,796,936**	**$29,847,948**	**$29,304,027**	**$28,746,927**	**$28,310,345**	**$27,817,182**	**$27,502,902**	**$29,911,584**
Interest Expense	$22,345,000	$24,635,363	$26,200,319	$24,949,162	$23,569,761	$22,048,971	$20,372,301	$18,523,772	$16,485,768	$14,238,870
EARNINGS BEFORE TAXES	**$255,912**	**($192,712)**	**$596,617**	**$4,898,787**	**$5,734,266**	**$6,697,956**	**$7,938,044**	**$9,293,411**	**$11,017,133**	**$15,672,714**
Income Taxes	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
NET INCOME (LOSS)	**$255,912**	**($192,712)**	**$596,617**	**$4,898,787**	**$5,734,266**	**$6,697,956**	**$7,938,044**	**$9,293,411**	**$11,017,133**	**$15,672,714**

23-Apr-98

TRRC498.WK4

EXHIBIT G
TONGUE RIVER RAILROAD COMPANY
PRO FORMA CASH FLOW STATEMENT

Year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
SOURCES OF CASH:										
From Operations:	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Freight Revenue	$46,447,600	$49,006,000	$52,342,800	$56,819,000	$56,294,600	$55,748,600	$55,202,600	$54,656,600	$54,403,000	$58,058,300
Decr (Incr) in Accts Receivable	($3,817,611)	($210,279)	($274,258)	($367,907)	$43,101	$44,877	$44,877	$44,877	$20,844	($300,436)
Cash Generated From Revenues	**$42,629,989**	**$48,795,721**	**$52,068,542**	**$56,451,093**	**$56,337,701**	**$55,793,477**	**$55,247,477**	**$54,701,477**	**$54,423,844**	**$57,757,864**
Operating Expenses and Non Cash Adjustments										
Operating Expenses	$23,646,688	$24,563,349	$25,545,864	$26,971,052	$26,990,573	$27,001,673	$26,892,255	$26,839,418	$26,900,098	$26,146,716
Increase in Mat., Suppl., & Other	$156,206	$6,585	$10,241	$15,332	($3,704)	($3,175)	($2,464)	($8)	$1,558	$17,359
Depreciation Expense	($7,126,325)	($7,126,325)	($7,126,325)	($7,126,325)	($7,126,325)	($7,117,325)	($7,112,825)	($7,112,825)	($7,112,825)	($7,108,161)
Amortization	($616,324)	($616,324)	($616,324)	($616,324)	($616,324)	($616,324)	($616,324)	($616,324)	($616,324)	($616,324)
Interest Expense	$0	$0	$26,200,319	$24,949,162	$23,589,761	$22,048,971	$20,372,301	$18,523,772	$16,485,768	$14,238,870
Decr (Incr) in Accounts Payable	($1,323,620)	($58,904)	($80,755)	($117,139)	($1,605)	($1,652)	$8,623	$4,343	($4,987)	($102,845)
Cash Disbursed for Expenses	**$14,936,625**	**$16,768,383**	**$43,933,021**	**$44,075,758**	**$42,812,377**	**$41,312,168**	**$39,641,548**	**$37,638,377**	**$35,653,290**	**$34,575,616**
Net Cash Generated by Operations	**$27,693,364**	**$32,027,338**	**$8,135,521**	**$12,375,335**	**$13,525,324**	**$14,481,308**	**$15,705,929**	**$17,063,100**	**$18,770,554**	**$23,182,248**
USES OF CASH:										
Payment of Debt Principal	$0	$0	$12,206,412	$13,457,569	$14,836,970	$16,357,760	$18,034,430	$19,882,959	$21,920,963	$24,167,861
Total Uses of Cash	**$0**	**$0**	**$12,206,412**	**$13,457,569**	**$14,836,970**	**$16,357,760**	**$18,034,430**	**$19,882,959**	**$21,920,963**	**$24,167,861**
NET INCREASE (DECREASE) IN CASH	**$27,693,364**	**$32,027,338**	**($4,070,891)**	**($1,082,235)**	**($1,311,646)**	**($1,876,452)**	**($2,328,501)**	**($2,819,859)**	**($3,150,409)**	**($985,613)**
CASH, BEGINNING OF YEAR	**$2,539,274**	**$30,232,637**	**$62,259,975**	**$58,189,084**	**$57,106,849**	**$55,795,203**	**$53,918,751**	**$51,590,250**	**$48,770,391**	**$45,619,982**
CASH, YEAR ENDING	**$30,232,637**	**$62,259,975**	**$58,189,084**	**$57,106,849**	**$55,795,203**	**$53,918,751**	**$51,590,250**	**$48,770,391**	**$45,619,982**	**$44,634,369**

23-Apr-98

EXHIBIT H

EXHIBIT H

ENVIRONMENTAL REPORT

[Separate Bound Volume]

EXHIBIT I

EXHIBIT I (A)

(To be published within two weeks after filing of the application.)

FINANCE DOCKET NO. 30186 (Sub-No.3)

RAIL CARRIER: The Tongue River Railroad Company.

AGENCY: Surface Transportation Board.

ACTION: Notice of Filing of a Railroad Construction and Operation Application to operate over the "Western Alignment" in Rosebud and Big Horn Counties, Montana.

SUMMARY: The Tongue River Railroad Company ("TRRC") has filed an application with the Surface Transportation Board seeking authority to construct and operate a 17.3-mile rail line from a point on TRRC's approved line between Ashland and Decker, Montana that would provide an alternative routing to the "Four Mile Creek Alternative" approved in Tongue River Railroad Company -- Rail Construction and Operation -- Ashland to Decker, Montana, Finance Docket No. 30186 (Sub-No. 2) (not printed) (served Nov. 8, 1996) ("1996 Decision"). The proposed alternative routing, which is referred to as the "Western Alignment," separates from TRRC's approved line approximately 20.8 miles south of the point at which the line connects with TRRC's approved line between Ashland and Miles City, Montana, and extends southwest to the Spring Creek/Decker area of southeastern Montana terminating near Decker, Montana, where it will connect with lines of The Burlington Northern and Santa Fe Railway Company (Kennecott Spur).

The purpose of TRRC's application is to receive authority to construct and operate over the Western Alignment, rather than the "Four Mile Creek Alternative," for the southernmost 17-mile segment of its already approved line of rail between Ashland and Decker, Montana.

TRRC has submitted an Environmental Report as part of its application. In addition, the Surface Transportation Board, acting as lead Federal Agency, is preparing environmental documentation to assess the environmental impacts of TRRC's proposal. The STB's environmental documentation will be made available for public review at a later date.

Any interested person may file written comments and evidence on the application with the Surface Transportation Board. A separate notice will be published at a later date, advising as to the date on which such comments and evidence will be due. Written comments and evidence, when due, should indicate the proceeding, STB Finance Docket No. 30186 (Sub-No. 3), and should be filed with the Surface Transportation Board, Office of the Secretary, Case Control Unit, 1925 K Street, N.W., Suite 600, Washington, DC 20036-1609. The original and ten copies of all comments and evidence shall be filed with the Board. A copy of each comment and evidence shall also be served upon TRRC's representatives: Betty Jo Christian, Esq., Steptoe & Johnson LLP, 1330 Connecticut Avenue N.W., Washington, DC 20036, (202) 429-3000, FAX number (202) 429-3902; and Mike T. Gustafson, Tongue River Railroad Company, 550 North 31st Street, Suite 250, P.O. Box 1181, Billings, MT 59103, (406) 252-5695, FAX number (406) 252-0073.

A copy of the application, including the Environmental Report, is available for public inspection at the offices of the Surface Transportation Board and the applicant, Tongue River Railroad Company, 550 North 31st Street, Suite 250, P.O. Box 1181, Billings, MT 59102.

EXHIBIT I (B)

(To be published after the Board issues an order

prescribing a procedural schedule.)

FINANCE DOCKET NO. 30186 (Sub-No.3)

RAIL CARRIER: The Tongue River Railroad Company.

AGENCY: Surface Transportation Board.

ACTION: Notice of Filing of a Railroad Construction and Operation Application to operate over the "Western Alignment" in Rosebud and Big Horn Counties, Montana.

SUMMARY: The Tongue River Railroad Company ("TRRC") has filed an application with the Surface Transportation Board seeking authority to construct and operate a 17.3-mile rail line from a point on TRRC's approved line between Ashland and Decker, Montana that would provide an alternative routing to the "Four Mile Creek Alternative" approved in Tongue River Railroad Company -- Rail Construction and Operation -- Ashland to Decker, Montana, Finance Docket No. 30186 (Sub-No. 2) (not printed) (served Nov. 8, 1996) ("1996 Decision"). The proposed alternative routing, which is referred to as the "Western Alignment," separates from TRRC's approved line approximately 20.8 miles south of the point at which the line connects with TRRC's approved line between Ashland and Miles City, Montana, and extends southwest to the Spring Creek/Decker area of southeastern Montana terminating near Decker, Montana, where it will connect with lines of The Burlington Northern and Santa Fe Railway Company (Kennecott Spur).

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A copy of the application, including the Environmental Report, is available for public inspection at the offices of the Surface Transportation Board and the applicant, Tongue River Railroad Company, 550 North 31st Street, Suite 250, P.O. Box 1181, Billings, MT 59102.

APPENDIX A

APPENDIX A

VERIFIED STATEMENTS OF TRRC AND BNSF WITNESSES

Mike T. Gustafson, Tongue River Railroad Company

Gregory T. Swienton, The Burlington Northern and Santa Fe Railway Company ("BNSF")

Ronald L. McMahan, Resource Data International

Daniel R. Hadley, Mission Engineering, Inc.

Larry A. Parker, BNSF

Robert H. Leilich, Corporate Strategies, Inc.

Thomas G. Kraemer, BNSF

David J. Mahle, BNSF

Francis M. Cox, III, Chase Securities, Inc.

BEFORE THE
SURFACE TRANSPORTATION BOARD

Finance Docket No. 30186 (Sub-No. 3)

TONGUE RIVER RAILROAD COMPANY -- RAIL CONSTRUCTION AND OPERATION -- WESTERN ALIGNMENT IN ROSEBUD AND BIG HORN COUNTIES, MONTANA

VERIFIED STATEMENT OF

MIKE T. GUSTAFSON

My name is Mike T. Gustafson and I reside in Billings, Montana. I received a bachelor of arts degree from Rocky Mountain College in Billings, Montana and a law degree from the University of Denver College of Law. I am the President of Wesco Resources, Inc. ("Wesco"), which is the manager of Transportation Properties LLP and which, in turn, is the general partner of Tongue River Railroad Company ("TRRC").

Wesco is a natural resources development company that has acquired interests in and developed oil, gas and coal mining projects in Montana and Wyoming. I have been the President of Wesco since its founding in 1973. WesRail, Inc., a wholly-owned subsidiary of Wesco, is a partner in Transportation Properties LLP, a Montana limited liability partnership

that is the general partner of TRRC. Wesco is also the manager of Transportation Properties LLP. I have been involved in all aspects of TRRC since its founding in 1981.

I previously submitted verified statements to the Surface Transportation Board ("Board") and its predecessor, the Interstate Commerce Commission, in support of TRRC's prior applications for rail line construction; those statements were dated April 5, 1984; May 25, 1984; April 29, 1992; July 24, 1992; and July 11, 1997. I explained in my 1997 verified statement, which was in support of TRRC's petition to reopen Finance Docket No. 30186 (Sub-No. 2), why the Western Alignment was not identified earlier as a viable alternative routing for the southernmost portion of TRRC's Ashland to Decker extension. I also explained in that statement that my discussions with financial institutions revealed a strong interest in TRRC's project, but that potential lenders have expressed concern about the unattractive operating economics and inefficiencies presented by the Four Mile Creek Alternative. My further discussions with representatives of The Burlington Northern and Santa Fe Railway Company ("BNSF"), which has a strong interest in the construction of the TRRC, have convinced me that the Western Alignment is far superior -- from an economic standpoint, an operational and maintenance standpoint, and an environmental standpoint -- to the presently approved routing, and that indeed approval of the Western Alignment may be vital to the success of TRRC's overall railroad project.

The Board has, of course, already concluded that construction of the TRRC rail line from Ashland to the Decker/Spring Creek area is consistent with the public convenience and necessity. By approving that rail line in late 1996, albeit over the Four Mile Creek Alternative rather than TRRC's original preferred routing for the southernmost portion of the

line, the Board made affirmative findings that the public benefits of the project clearly outweigh any disadvantages. Furthermore, I understand that Congress has amended the substantive standard contained in the statute the Board applies in its consideration of proposed railroad construction projects. Previously, the Board was authorized to approve railroad construction applications only if it found the construction to be consistent with the public convenience and necessity; however, it is my understanding that the statute now requires approval of such applications unless the Board finds the proposal to be inconsistent with the public convenience and necessity. This seems to me to be a strong signal from Congress that approval of a construction application such as this should be granted unless there is a clear showing that, for some reason, it would be contrary to the public interest.

In any event, approval of the Western Alignment is clearly consistent with the public convenience and necessity, especially when one considers the environmental, economic and operating advantages that will accrue to TRRC and its shippers. The evidence being submitted in support of this Application includes, among other information, detailed testimony about the design and operation of the Western Alignment, as well as the environmental impacts associated with it, the future outlook for coal in the Powder River Basin of Montana and Wyoming (which will be the predominant commodity transported on TRRC), and the financability of the project and financial outlook for TRRC once operations commence. As that evidence demonstrates, construction of the Western Alignment as proposed by TRRC will produce substantial benefits not only for TRRC, but also for the shipping public and the public as a whole.

In its prior decision, the Board required that the Ashland to Decker line be constructed over the Four Mile Creek Alternative, rather than TRRC's original preferred alignment, because of environmental concerns. As the Environmental Report attached as Exhibit H, which was prepared by Radian International L.L.C., demonstrates, the Western Alignment is clearly preferable from an environmental standpoint to the Four Mile Creek Alternative. Similarly, the Western Alignment has significant economic and operating advantages compared to the Four Mile Creek Alternative. All of these advantages are summarized in the Application, and are discussed in greater detail in the Operating Plan attached as Exhibit D and the Verified Statements of Robert H. Leilich, Larry A. Parker, Daniel R. Hadley and David J. Mahle in Appendix A.

The public benefits of the Western Alignment become clear when one considers the future outlook for coal that will be produced from Montana and northern Wyoming mines. In order to provide the Board with recent information about the principal commodity it will transport, TRRC requested Resource Data International, Inc. ("RDI"), which had submitted testimony in support of TRRC's prior application, to update its previous studies of the Montana coal industry. As the Verified Statement of Ronald L. McMahan, President of RDI, demonstrates, RDI concludes in its most recent study that nearly all growth in demand for Montana coal is projected to require higher quality compliance coal from mines that are not presently served by rail transportation, but that will be served in the future by TRRC. Thus, the potential demand for Montana compliance coal is projected to increase from 21.0 million tons in 1997 to 44.2 million tons in 2015. RDI's conclusions provide a strong indication that prompt construction of the TRRC is necessary in order to provide transportation to serve the

increasing demand for compliance coal that will be developed in southeastern Montana. And it is clearly in the best interests of those mines and their customers that the coal move over the most efficient, operationally sound route.

I should point out that I believe RDI's most recent study is overly conservative in its estimate of the earliest year in which new compliance coal production could be brought in line. Based on my experience in developing coal mining projects in Montana and my 29 years of experience in the Powder River Basin, I believe that compliance coal could be sourced from new Montana mines to be served by TRRC as early as 2002, rather than 2005 as forecasted by the RDI report. Accordingly, the pro forma financial statements that have been submitted with TRRC's Application assume that incremental production of compliance coal from new mines to be served by TRRC will begin at modest production levels in 2002, and will increase in subsequent years.

I should also note that I oversaw the preparation of the form of the pro forma financial statements that are being submitted with TRRC's Application to construct and operate the Western Alignment. Detailed pro forma financial statements were generated by Corporate Strategies, Inc. ("CSI") using the financial model that is discussed in the Verified Statement of Robert H. Leilich. The detailed pro forma financial statements were reviewed by Francis M. Cox, III, Vice President of Chase Securities Inc., for use in advising TRRC about the financing plan discussed in his verified statement. In addition, the summary pro forma income statement and statement of cash flow for operating years 1 through 10 that is included in TRRC's Application as Exhibit G was prepared using CSI's model. The preparation of the pro forma financial statements in Exhibit G merely involved taking the detailed pro formas generated by CSI and summarizing

the information into a format that would assist the Board and its staff in its review of the projected operating results of TRRC.

TRRC and coal shippers will be in a position to capitalize on the opportunity to produce and transport the vast untapped compliance coal reserves in southeastern Montana only if the Board acts quickly to approve the efficient routing alternative presented in this Application. I am fully aware of the Board's obligation to evaluate the environmental aspects of a railroad construction proposal. In order to expedite the environmental review process, to while still ensuring that all environmental concerns raised by the Board's Section of Environmental Analysis ("SEA"), other federal and state agencies, and interested members of the public are appropriately addressed, TRRC has therefore submitted its own Environmental Report with this Application and has also contracted with an independent third party contractor approved by SEA to complete the environmental assessment of the Western Alignment. I do not anticipate that the environmental review will be time consuming given that the Western Alignment lies between the heavily studied Four Mile Creek Alternative and TRRC's original preferred alignment, and the underlying data from the April 1996 final environmental impact statement is available to the SEA and the third party contractor for use here.

The support TRRC has received for this proposal to use the Western Alignment rather than the Four Mile Creek Alternative has been overwhelming. We are continuing to pursue negotiations with representatives of the BNSF in order to reach agreements regarding cooperation and possible operation of the line. While final agreements have not yet been reached, BNSF has weighed in with its strong support of this Application, as reflected in the Verified Statements of Gregory T. Swienton, Thomas G. Kraemer, Larry A. Parker and David

J. Mahle. Prospective shippers who are submitting supporting letters or verified statements include Detroit Edison, Commonwealth Edison Company, Minnesota Power & Light Company, Midwest Energy Resources Company and Northern States Power Company.

TRRC's Application to construct the Western Alignment is also strongly supported by Montana Governor Marc Racicot, United States Senators Conrad Burns and Max Baucus, and United States Congressman Rick Hill. As Governor Racicot states in his supporting letter, the Western Alignment is a "safer, shorter route with a more favorable grade" which will "restore the economic and operating efficiencies originally anticipated" in TRRC's lines of rail.

In sum, I am confident that once the Board has had an opportunity to review the evidence submitted in this proceeding, it will conclude that the Western Alignment is not only not inconsistent with the public convenience and necessity, but that the routing will yield substantial benefits to TRRC, its shippers and the public generally. I ask the Board to promptly consider TRRC's Application and to render its decision in the most expeditious manner possible so that TRRC can complete all necessary arrangements to begin construction, and so that TRRC's prospective shippers can begin to realize the advantages of the Western Alignment at the earliest available opportunity.

This concludes my verified statement.

STATE OF MONTANA)
)
COUNTY OF YELLOWSTONE)

ss:

Mike T. Gustafson, being first duly sworn, deposes and says he has read the foregoing statement, knows the contents thereof, and that the same are true and correct to the best of his knowledge and belief.

Mike T. Gustafson

SUBSCRIBED AND SWORN TO before me this 17th day of April, 1998.

Becky D. Bruce
Notary Public for the State of Montana.
Residing at Billings
My commission expires: 5/19/01

SEAL

BEFORE THE
SURFACE TRANSPORTATION BOARD

Finance Docket No. 30186 (Sub-No. 3)

TONGUE RIVER RAILROAD COMPANY --
CONSTRUCTION AND OPERATION

VERIFIED STATEMENT OF
GREGORY T. SWIENTON

My name is Gregory T. Swienton. Since May 1996 I have been Senior Vice President, Coal and Agricultural Commodities, for The Burlington Northern and Santa Fe Railway Company ("BNSF"). Prior to that, I was Senior Vice President - Consumer and Industrial Business Unit from February 1996, and Senior Vice President-Industrial Business Unit from September 1995, Executive Vice President, Intermodal Business of Burlington Northern Railroad from June 1994. Prior to my employment with Burlington Northern Railroad in 1994, I was Executive Director-Europe and Africa (Brussels) of DHL Worldwide Express from January 1991. I hold a B.B.A. degree in Marketing from Loyola University (1971) and an M.B.A. degree from the University of Chicago (1979).

My business address is 2650 Lou Menk Drive, Fort Worth TX 76131-2830. My current responsibilities include, among other things, oversight and management of BNSF's Coal Business Unit and its market development activities. This statement is submitted on behalf of

BNSF in support of the line construction application of the Tongue River Railroad Company.

Over the past year and a half BNSF personnel have had numerous meetings with Tongue River representatives to discuss their proposed track construction and mine development in the Powder River Basin ("PRB") region of Montana. In addition as part of BNSF's consideration of the proposal, BNSF representatives have also met with Montana state officials regarding Montana coal development which would be significantly enhanced with the Tongue River development. After study of the proposal and negotiation with Tongue River officials, BNSF has determined that the proposed line construction is a worthy endeavor deserving prompt approval of the Surface Transportation Board. Depending on the economics, it is anticipated that traffic over the Tongue River would be generated from the new Montco mine development, existing Montana mines, and BNSF-served Wyoming mines that ship coal over BNSF's Northern corridor.

The Tongue River extension will facilitate the development of vast energy resources -- approximately five billion tons of untapped high quality coal reserves. In general coal from this region has a heat value of about 8800 Btu's per pound, which is slightly higher than the average of Wyoming PRB coal. Montana PRB coal ranges from 8600 to 9600 Btu's per pound. In contrast, Wyoming coal's range is 8300 to 8800 Btus. In addition, like Wyoming coal, Montana coal is low in sulfur content, and the Montco coal is expected to have a sulfur content of 0.2%, which is very low sulfur coal. The low sulfur content makes the coal highly desirable for reducing sulfur emissions in compliance with Clean Air Act standards.

While currently BNSF serves existing mines in Montana, substantial recoverable reserves in the Montana PRB region remain inaccessible to rail transportation. Thus, Montana

coal growth has remained stagnant over the years, even in the face of ever increasing demand for low sulfur PRB coal. In contrast Wyoming coal production and development has soared since construction of the Orin Line opened the area to unit train transportation. In 1970, Wyoming PRB production was about four million tons, and Montana's was about 3.5 million tons. By 1997, estimated Wyoming PRB production was 272 million tons, and Montana's PRB production lagged far behind at 41 million tons.

Since the early 1970's PRB coal demand has increased exponentially, and demand is predicted to grow even more in the coming decades. With Phase II of the Clear Air Act on the horizon (January 1, 2000) the sulfur dioxide emissions standard for electric generators will be reduced to 1.2 pounds per mmbtu. In order to satisfy emissions standards it is anticipated that many coal plants will either blend or switch to lower sulfur coals or alternatively purchase electricity off the grid. Plants that burn low sulfur coal will likely increase their capacity utilization factors in order to take advantage of off-system energy sales and/or market emissions reduction credits to those plants in need of emissions reduction alternatives. The economics of low sulfur PRB coal, particularly with its emissions benefits, cannot and will not be denied. Opening Montana coal production to participate in servicing this increased demand is undeniably in the public interest.

Undoubtedly the proposed construction and attendant mine development will benefit the energy consuming public. The Tongue River project should facilitate enhanced unit coal train service with a new coal supply source closer to certain utility markets. In particular, the Tongue River line should provide closer coal source alternatives to the Minnesota, Wisconsin, North Dakota, and Great Lakes markets.

Other benefits will redound to the benefit of both BNSF and the PRB transportation infrastructure. It is anticipated that some coal will be diverted over BNSF's Northern Corridor, thereby easing traffic density on the Central Corridor. Additionally, the infusion of capital into the region will be of significant benefit. With the rapid enlargement of the BNSF system brought about by its own merger and its route acquisitions from the UP/SP merger, BNSF is somewhat capital constrained. Critical capacity and market development projects in various locations throughout the BNSF system compete for capital dollars. The Tongue River development poses the prospect of new rail infrastructure and market development without substantial capital outlays directly from BNSF. Although negotiations over financial and other issues between BNSF and Tongue River are still not yet completed, at this stage BNSF nevertheless remains interested in the proposal's market development potential. BNSF's number one interest in the project is Tongue River's commitment to Montana coal development.

Critical to the success of Tongue River's coal development project is the proposed line construction outlined for the Board. As a potential beneficiary of that project, we are keenly interested in the Tongue River's line construction. Toward that end, we have reviewed the application and endorse the project as proposed. Accordingly, we request that the application be granted as requested by Tongue River.

VERIFICATION

Gregory T. Swienton, being duly sworn, deposes and says that he has read the foregoing statement and that the contents thereof are true and correct to the best of his knowledge and belief.

Gregory T. Swienton

Gregory T. Swienton

Subscribed and sworn to before me this 8th day of April, 1998.

Babette L. Henderson

Notary Public

BABETTE L. HENDERSON
MY COMMISSION EXPIRES
May 26, 2001

BEFORE THE
SURFACE TRANSPORTATION BOARD

FINANCE DOCKET NO. 30186 (Sub-No. 3)

TONGUE RIVER RAILROAD CO. –
RAIL CONSTRUCTION AND OPERATION
ASHLAND TO DECKER, MONTANA

VERIFIED STATEMENT OF

RONALD L. McMAHAN

My name is Ronald L. McMahan, and I reside at 594 Linden Park Court, Boulder, CO 80304. I am President of Resource Data International ("RDI"), a Boulder, CO based energy consulting company and I am President of Financial Times Energy, with offices in London, Boulder and Singapore. I am an energy economist and for the past twenty five years have specialized in the analysis of US coal and electricity markets. On an annual basis since 1985, RDI has published the *Outlook for Coal and Competing Fuels ("Outlook")*, a publication that presents our forecast of demand and prices for US coal. RDI's Senior Economist has previously filed a Verified Statement related to Sub-docket number 2 in this matter.

RDI has recently published the 1998 *Outlook*, which contains the data and forecast that I have relied upon in the preparation of this verified statement. RDI believes that there will continue to be a significant increase in the demand for coal produced in the Powder River Basin for three basic reasons. First, the coal from this region has an extremely low sulfur content that enables utilities to comply with the SO2 emission limits imposed by the Clean Air Act Amendments of 1990, Phase I of which went into effect in 1995, and Phase II of which is scheduled to go into effect in 2000. Second, Powder River Basin coal tends to be inexpensive to produce (primarily because of extremely favorable geological conditions and concomitantly high levels of productivity), resulting in very competitive delivered prices, even in distant markets. And third, as the electric utility industry continues its move toward deregulation at the retail level, Powder River Basin coal will provide extremely attractive economics to generating companies sensitive to fuel costs as well as environmental limits.

Within the Powder River Basin, we draw a distinction between the North Powder River Basin ("NPRB") which is in Montana, and the South Powder River Basin ("SPRB") of Wyoming. Historically, in addition to its local Montana markets, the NPRB has tended to serve markets along the so-called Northern Tier market of the US (i.e., Minnesota, Wisconsin, Michigan, Washington, northern Illinois and the Dakotas). Over the past several years, RDI has been forecasting the potential growth in demand for NPRB coal on the assumption that a number of barriers to the development of new, low-sulfur, high-Btu mines are overcome. In particular, all of our projections for demand from the NPRB, are based on the assumption that viable transportation becomes available to serve undeveloped coal reserves in the Tongue River Region.

Starting with the assumption that these new reserves can be developed and served by rail transportation, RDI projects that the demand for NPRB coal could grow significantly between now and 2015. In particular, RDI projects that virtually all of the growth in NPRB production will be concentrated in compliance quality coal – i.e., coal with sulfur dioxide content less than 1.2 pounds per million Btu.

The enclosed map shows present and potential Montana compliance coal markets. Within the broad Northern Tier market, Montana-origin compliance coal enjoys competitive advantages over other competing coal sources with less favorable production and transportation costs or less attractive sulfur and heating value characteristics. Specifically, Montana coal is much cheaper to produce than coal from the mid-western and eastern coal fields, and enjoys a transportation advantage into the Northern Tier market over the Wyoming Powder River Basin mines to the south. At the same time, the long-term economic conditions in key Montana compliance coal markets are expected to remain strong, suggesting that economic and population growth will stimulate above average electric sales growth.

The utility market is by far the most important sector for NPRB coal, currently accounting for 94% of all demand. The market consists of two components – scrubbed power plants designed to use higher-sulfur, non-compliance coal and non-scrubbed plants which have been converted from bituminous and higher sulfur subbituminous coal to meet environmental mandates. Obviously, the non-compliance coal moves in the former market while the compliance mines rely on the latter market for demand.

Virtually all of the growth in demand for Montana coal is projected to require the higher quality compliance coal, as shown in Table 1 – primarily because of the effects of the Clean Air Act Amendments of 1990, and the resulting "premium" attached to lower sulfur content. At the same time, demand for non-

compliance coal is expected to remain relatively flat over the forecast period, and is not directly affected by the compliance market or the development of new compliance reserves.

Table 1: Forecast of Potential Montana Coal Demand by Market and by Sulfur Content (Millions of Tons Per Year)

	1996	1997	2000	2005	2010	2015
Electric Utility						
Compliance	19.3	19.0	24.1	31.6	33.7	41.0
Non-compliance	16.5	18.9	18.3	19.1	18.8	18.2
Industrial/Export/NUG						
Compliance	1.9	2.0	2.3	3.0	3.2	3.2
Non-compliance	.6	.6	.7	.7	.7	.7
Subtotal						
Compliance	21.2	21.0	26.4	34.7	36.9	44.2
Non-compliance	17.1	19.4	18.9	19.8	19.5	18.9
Total	38.3	40.4	45.3	54.4	56.4	63.1

Currently, only two Montana (NPRB) mines in the Spring Creek-Decker area produce compliance quality coal. Therefore, until new compliance reserves are developed to serve the evolving demand, Montana's ability to serve these markets will be limited by the supply potential of these two mines. In 1996 RDI reviewed state and federal permit filings in order to estimate the productive capacity of these two mines through our forecast period. Table 2, below summarizes the results of that analysis, showing that a capacity shortfall could occur as early as 2005.

Table 2: Estimated Montana Compliance Coal Production Capacity at Existing Mines (In Millions of Tons per Year)

	1996	2000	2005	2010	2015
Spring Creek	10.0	15.0	15.0	0.0	0.0
West Decker	12.0	12.0	0.0	0.0	0.0
East Decker	4.4	6.0	16.4	16.4	16.4
Total Capacity	26.4	33.0	31.4	16.4	16.4
Total Estimated Demand	21.2	26.4	34.7	36.9	44.2
Surplus/(Deficit)	5.2	6.6	(3.3)	(20.5)	(27.9)

RDI's updated *Outlook* forecast is consistent with earlier forecasts in that it projects significant potential growth in demand for Montana compliance coal. However, in prior forecasts, it was projected that some new mining projects would have to be well into their development stages by the year 2000, to meet the

projected demand. However, since neither the construction of a railroad, nor the development of any new mining projects are underway as of this date, the current forecast now assumes that the earliest that new compliance coal production could be brought on line would be 2005 resulting in a ramp-up of compliance coal supply from that point forward. It is assumed that any new compliance coal production in Montana will originate from new mines in the Tongue River regions – e.g., CX Ranch, Montco, Otter Creek Area, Young's Creek Area.

Regarding current transportation patterns out of and through the NPRB, in 1997, roughly 6.5 million tons of Montana compliance coal (approximately 16% of total deliveries) moved southward from Montana through Wyoming and into markets in South and Midwest. I estimate that about 8 million annual tons of Montana compliance coal will move south in the 2000 time period and beyond. Moreover, between five and seven million annual tons of Wyoming coal are currently being routed northward through Montana into Northern Tier markets over the current more circuitous BNSF rail route passing through Sheridan, WY, Forsyth MT and Miles City, MT. Completion of the proposed Tongue River Railroad to the Spring Creek-Decker area would shorten the rail distance from the Spring Creek and Decker mines as well as the Wyoming mines into this market. One would expect that at least the volume of Wyoming coal moving over the current more circuitous route would move over the Tongue River Railroad.

Ronald L. McMahan

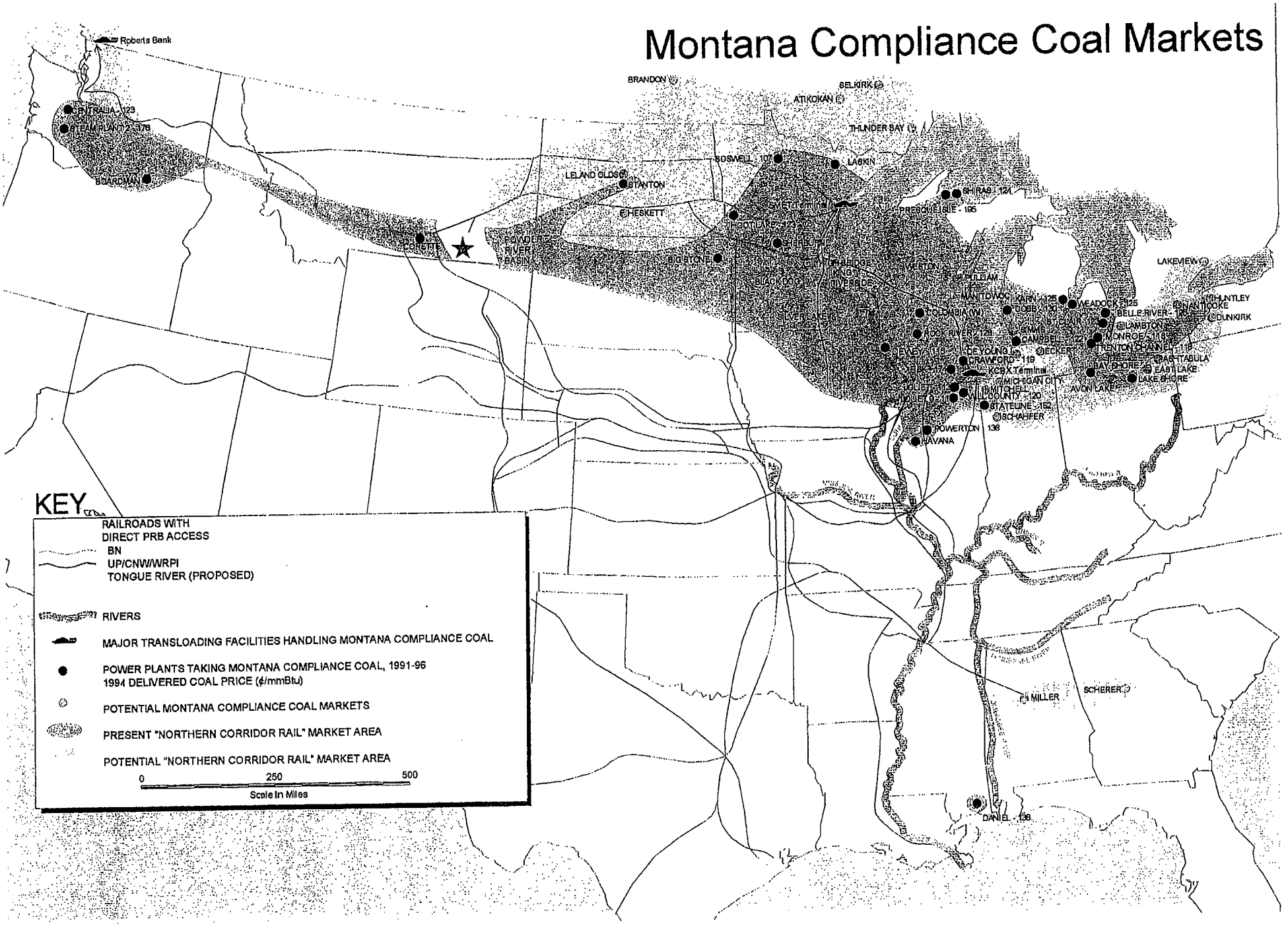
State of COLORADO
County of BOULDER

Subscribed and sworn to before me this 22 day of April, 1998.

Notary Public for the State of Colorado
Residing at 1320 Pearl St.
My commission expires 2/25/2002

NOTARY PUBLIC
CATHERINE M. DICKENS
STATE OF COLORADO
My Commission Expires 02/25/2002

Montana Compliance Coal Markets



KEY

- RAILROADS WITH DIRECT PRB ACCESS
  - BN
  - UP/CNW/WRPI
  - TONGUE RIVER (PROPOSED)
- RIVERS
- MAJOR TRANSLOADING FACILITIES HANDLING MONTANA COMPLIANCE COAL
- POWER PLANTS TAKING MONTANA COMPLIANCE COAL, 1991-96
  1994 DELIVERED COAL PRICE (¢/mmBtu)
- POTENTIAL MONTANA COMPLIANCE COAL MARKETS
- PRESENT "NORTHERN CORRIDOR RAIL" MARKET AREA
- POTENTIAL "NORTHERN CORRIDOR RAIL" MARKET AREA

0 250 500
Scale In Miles

BEFORE THE
SURFACE TRANSPORTATION BOARD

Finance Docket No. 30186 (Sub-No. 3)

TONGUE RIVER RAILROAD COMPANY -- RAIL CONSTRUCTION AND OPERATION -- WESTERN ALIGNMENT IN ROSEBUD AND BIG HORN COUNTIES, MONTANA

VERIFIED STATEMENT OF

DANIEL R. HADLEY

My name is Daniel R. Hadley. My business address is 730 East Main Street, Billings, Montana. I am President of Mission Engineering, Inc., which provides engineering consulting services to the mining and transportation industry. I have been President of Mission since its founding in 1989. Prior to managing Mission Engineering, Inc., I served as Manager of Design and Construction for Kaiser Coal Corporation from 1984 to 1987, where my responsibilities included managing studies to develop more efficient coal handling and transportation systems for enhancement of Kaiser's coal reserves. From 1980 to 1984 I was the Senior Design Engineer for IntraSearch Engineering, Inc., which developed the original 89-mile segment of the Tongue River Railroad from Miles City, Montana to two terminus points south of Ashland, Montana.

I have a Master of Science in Civil Engineering from the University of Utah and I am a registered professional engineer in Montana and several western states. During the past

several years I have designed and prepared construction plans and specifications for various rail projects including the Star Lake Railroad Company, Albuquerque, New Mexico; the Santa Fe Railroad Company, Los Angeles, California; the Peabody Rochelle Mine Project, Wyoming; the North Antelope Mine Project, Wyoming; the Montco Mine Project, Montana; the York Canyon Mine, New Mexico; the Sunnyside Mine, Utah; the State Railway of Thailand, Bangkok, Thailand; and the Tongue River Railroad Company (TRRC) Project in Montana.

Purpose

The purpose of this statement is to describe the general design and operational criteria and construction criteria for TRRC's proposed Western Alignment, an approximately 17-mile line of railroad in Rosebud and Big Horn Counties, Montana. My statement also describes the advantages of the Western Alignment over the previously approved route known as the Four Mile Creek Alternative.

Mission Engineering, in cooperation with the Burlington Northern and Santa Fe Railway Company ("BNSF"), developed the Western Alignment. Mission Engineering also has consulted with Granite Construction Company, and the engineering firms of URS Greiner and Carter & Burgess,Inc. in developing a final alignment and associated construction costs for the Western Alignment.

General Design Criteria

The design process for the Western Alignment has taken into consideration numerous criteria to provide optimum design and operation characteristics, such as grade and curvature, while limiting environmental and recreational impacts.

The Western Alignment represents the southernmost approximately 17 miles of the extension from Ashland to Decker, Montana approved by the Board in FINANCE DOCKET NO. 30186 (Sub-No. 2). At Mile Post 20.8, of the TRRC Extension from Ashland, the Western Alignment deviates from the previously approved alignment. This point begins Mile Post 0.0 of the Western Alignment. At Mile Post 0.8 the Western Alignment makes its only crossing of the Tongue River with a low, 400-foot-long railroad bridge. After the crossing, the Western Alignment traverses the western side of the Tongue River Valley and connects with the Spring Creek Rail Spur at Mile Post 17.3.

The Western Alignment is designed to facilitate the operation of unit coal trains of 115 to 125 cars with design speeds of between 45 and 55 miles per hour. It is estimated that two locomotives will be used; however, helper locomotives may be used to assist trains leaving the Spring Creek Mine. The design criteria include the following:

- Maximum horizontal curvature of 3 degrees;
- Minimum tangent distance between horizontal curves of 200 feet;
- Maximum grade against empties of 1 percent compensated for curvature;
- Maximum grade against loads of 0.50 percent;
- Maximum vertical curvature shall be 0.05 feet per 100 feet in sags and 0.10 feet per 100 feet at summits.

Earthwork Criteria

The earthwork design criteria include the cuts and fills necessary to construct a roadbed on which to place mainline trackage and does not include ballast and trackage criteria. Cut and fill slope ratios are chosen to minimize the amount of excavation required to obtain a

balance of material without jeopardizing the stability of the constructed slopes. Low, medium and high cut and/or fill slope ratios were selected based on the following criteria.

- Low cut/fill slope ratios were used when the natural side slopes were less than 30 percent.
- Medium cut/fill slope ratios were used when the natural side slopes were between 30 and 55 percent.
- High cut/fill slope ratios were used when the natural side slopes exceed 55 percent.

In general, low cut and fill ratios of 2H:1V, medium cut and fill ratios of 1.5H:1V, and high cut and fill ratios of 1H:1V will be used. In special cases, where the cuts will be through bedrock material, a cut/slope ratio of 1H:1V will be used regardless of the ground slope.

Because the Western Alignment traverses rough terrain between Mile Post 7 and Mile Post 12, special design criteria have been considered for this portion of the line. For cuts and fills exceeding 100 feet in height, slope ratios will be flattened to provide for greater stability and horizontal benches will be added for every elevation increase of 50 feet. These benches will not only provide for greater slope stability, but will also intercept and divert water away from the constructed slopes, minimizing slope erosion. During the final engineering design process, additional geotechnical information will be gathered for all the major cuts and fills throughout this section of the alignment. Upon completion of the site and laboratory investigations, specific slope recommendations will be made for the final earthwork design.

Hydrologic Control Design Criteria

Hydrologic control measures were designed by first developing flood flows for all major drainages intercepting the alignment using the Soil Conservation Service (SCS) triangular unit hydrograph procedure as outlined in detail in the SCS National Engineering Handbook, Hydrology: Section 4, particularly Chapters 7, 9, 15, and 16. Parameters required for this procedure for each drainage basin include area in square miles, stream length in miles, basin relief, curve number, and adjusted point precipitation.

Area, stream length, and basin relief were measured on USGS 7½-minute quad maps. The SCS Curve number for all cases was 75, which corresponds to "fair" condition. Depth-duration analyses for the area were then performed using methods outlined in NOAA Atlas 2, Precipitation-Frequency Atlas of the Western United States. Point precipitation values were adjusted according to standard procedure when the drainage basins were large.

Based on the corresponding flood flow determinations, round, corrugated metal pipes (CMP) were sized for the 10- and 25-year, 24 hour peak flows. The pipes were designed to pass the 10-year peak with no headwater at the entrance, and to safely pass the 25-year peak with one-pipe-diameter of headwater at the entrance. The 50-year and 100-year flood flows also were checked to insure the integrity of the constructed rail embankment.

The only crossing of the Tongue River, at Mile Post 0.8, will be bridged with a structure approximately 400 feet long. This structure was designed to safely pass the 100-year flood, while creating no additional elevation in the upstream water surface profile.

Major Structures and Miscellaneous Earthwork Items

The major structures for the Western Alignment can be placed in the following categories:

- Railroad Bridges - short and long span
- Metal Arch Cattle Passes
- Vehicle Underpasses
- Drainage Culverts

General design criteria for these categories are described as follows:

- Short-span railroad bridge - spans up to 23 feet using concrete pile bents, concrete caps and standard AREA precast concrete deck spans.
- Long-span railroad bridge - spans 80 to 120 feet. Concrete piers, concrete deck on steel girders.
- Metal arch cattlepass - multi-plate arch 12'-2" width with 11' rise.
- Vehicle underpass - private grade crossings, 12' x 12' box culvert concrete section.
- Drainage culverts - round corrugated metal pipe sized for the 10- and 25-year, 24 hour peak flows, minimum diameter 24-inch, maximum diameter 120-inch.

Trackage Design Criteria

Track Construction

The main track and sidings will be constructed of 136-pound continuous welded rail (CWR) which will be brought to the site on a rail train in strings approximately 1,440 feet long. This is 37 lengths of rail 39-feet long, plant welded; there is an average loss of about 3

feet due to the welding process. The ties for the main track and siding will be concrete. Treated wood ties will be used on the bridges, set-out tracks and yard tracks. Concrete tie spacing will be on 24-inch centers.

Sidings

The Tongue River Railroad will be a single track facility with significant tonnages even in the early stages of operation. The provision of adequate sidings (both in spacing and length) is essential to enable the railroad to operate efficiently and safely. The design of the siding spacing is dependent primarily upon the number of trains operating on an average day, the number and size of the locomotives used by the train, and the peak factor required for higher than average days. The lengths of the sidings are dependent primarily upon operational considerations involving the number of trains to be accommodated.

For the Western Alignment, the above parameters resulted in the recommendation for one passing siding, approximately 8,500 feet long near the connection with the Spring Creek Spur. In addition to the main passing siding, a shorter set-out track is recommended for cars requiring repair, and secondarily, for storage and clearing of maintenance equipment when required. The set out track will be approximately 550 feet in length and will be constructed of 132 pound relay rail.

The major track design criteria are summarized in Table 1.

Table 1: Major track design criteria.

Rail	Main track, sidings and lead track in yard	136# Continuous Welded Rail (CWR)
	Set-out tracks	132# Relay rail
Ties	Main track, sidings and lead track in yard	Concrete ties - 24 inches on center.
	Set-out tracks and yard tracks	#5 treated hardwood ties w/end bar - 19-inch centers
Turnouts	Main track and siding	# 20 turnouts
	Set-out track and yard	# 11 turnouts
Ballast	Main track, sidings and lead track	12 inches competent granite or limestone
	Set-out tracks	6 inches competent granite or limestone

Construction Procedures

The construction plan for the Western Alignment is essentially the same as for the TRRC line as a whole. Work will begin with an initial clearing of the right-of-way (ROW). The contractors will fence the ROW and clear and grade the track in five to six mile segments.

The main line and siding will be constructed almost entirely by contractors. All items of track material will be delivered to the construction site on rail cars. It is proposed that the rail welding will be done at temporary facilities in Miles City, Montana, and near the

connection with the Spring Creek Spur. The contractors will have the authority to choose the precise methods of construction to be employed; however, the general guidelines outlined below will be applicable. The estimated construction costs for the Western Alignment and the entire TRRC are set forth in Attachment 1 hereto.

Earthwork

Initial Clearing and Construction: The construction contractors will build suitable fencing along much of the ROW boundaries. The contractor(s) then will begin preliminary site preparation by constructing work roads and clearing and grading the work site in five to six mile segments.

Bridges and Culverts: Once the initial clearing has been accomplished, work will commence on the placement of drainage culverts and the two bridges along the Western Alignment. The drainage culverts' primary function will be to simulate the natural drainage of runoff water through and across the ROW to mitigate the effect of construction on adjacent property and existing water courses. In addition, the culverts will protect the railroad and its facilities from flood damage. Preparation and placement of culverts will require a number of pieces of heavy equipment including, but not limited to, boom trucks, cranes, vibratory rollers, hand tampers, dozers, front-end loaders and trucks.

Culverts will be galvanized and/or coated CMP ranging in diameter from 24 to 120 inches. Rip-rap material will be placed, when conditions require, at the inlets and outlets of the culverts to serve as cutoff walls and aprons for erosion control. At other locations flared-end sections on culverts may be used, and at the smaller drainage crossings no end

treatment will be required. Rip-rap also will be used to protect side slopes at bridge crossings.

Simultaneously with the construction of culverts, work will commence on the abutments and piers for the two bridges on the Western Alignment. In general, the bridges will have ballast decks on steel girder spans supported by steel pile or concrete piers. Crawlers or truck-mounted cranes will handle pile driving equipment and will place the steel spans. Trucks will haul the construction materials from the railhead or supply point to each of the bridge locations.

The first step in the bridge construction will be to drive friction or point bearing piles as required. After completion of the pile driving, pile caps, abutments, and wing walls will be formed, reinforcing steel will be installed, and the concrete will be placed. After an ASTM-approved curing period, steel spans will be erected and the concrete deck and ballast stops installed.

Grading: The first step in the grading activities will be to remove and store the available topsoil from cut and fill areas, where it exists. Cut areas will be excavated using either scrapers, front-end loaders, power shovels or dozers. On the basis of field investigations conducted to date, it appears that only limited blasting will be required along the Western Alignment.

A typical work unit for cut work will consist of the following equipment:

- A crawler tractor with ripper
- A crawler tractor with blade
- Two motor patrols
- Five or six scrapers
- A crawler tractor with push block
- Water truck
- Rollers

After initial grading and cutting, it may be necessary to use rippers to break up the more resistant material. The scrapers excavating the cut material may be pushed by a "push-cat" (crawler tractor unit) where additional power is required. These scrapers will transport the material to a nearby fill or spoil area for placement. Often the contractor will irrigate the "in-situ" cut material prior to loading and hauling in order to control dust and achieve optimum soil moisture for compaction.

Fill operations will be accomplished by placing material from cuts in eight to ten-inch lifts. A dozer will distribute the fill material dumped by scrapers or trucks. If not done previously, a water truck will spray the fill materials to facilitate maximum compaction. A crawler tractor pulling a roller or compactor will be used to obtain 90 to 95 percent compaction density. Quality control of the compaction effort will be monitored by collecting fill samples and performing standard compaction tests.

Upon completion of the cuts and fills, a layer of topsoil, if previously stockpiled, will be distributed over the side slopes. The areas then will be mulched and seeded. Silt fences, plastic netting, and other silt control measures will be used where appropriate.

Sub-ballast Operation: In the process of excavating the cuts along the ROW, it is expected that gravel and cobbles will be encountered which can be used to construct the sub-ballast lifts. Sub-ballast material will be placed into trucks by a loader and carried to a screen for size segregation. The maximum allowable size for sub-ballast will be material passing a three-inch screen. The sized or screened rock then will be loaded into dump trucks, spread onto the roadbed in approved depth lifts and compacted to approved ASTM standards to a depth of twelve or more inches.

Cleanup Work and Revegetation Program: One of the last tasks that will be completed by the contractor is the cleanup of the ROW, work roads and maintenance yards. The work roads and hauling ramps will be graded to the original topography. Construction debris will be collected and miscellaneous track materials, cans, boxes and cartons will be picked up and disposed of in county landfills or other approved landfill areas.

Temporary work roads will be graded to blend with the natural topography. Revegetation of abandoned work roads, ramps, cuts, embankments and other disturbed portions of the ROW will commence following the completion of grading.

Advantages of the Western Alignment Over the Four Mile Creek Alternative

The Western Alignment is superior to the Four Mile Creek Alternative previously approved. The Western Alignment reduces the total length of the rail line by approximately 12 miles and significantly reduces horizontal curves and adverse grades. The Western Alignment maximum grade is approximately 0.93 percent for a length of approximately 9,400 feet. By contrast, the Four Mile Creek Alternative has a maximum grade of approximately 2.3 percent over 3.18 miles. The reduction in grades and length will make

for a more efficient operation. These greater efficiencies in the Western Alignment, such as flatter grades, shorter running times, fewer locomotives, and fuel savings, all equate to a more safe and efficient railroad with much lower operating costs. Greater detail of these efficiencies are discussed in the Verified Statement prepared by Robert H. Leilich of Corporate Strategies, Inc. Moreover, the Western Alignment offers other advantages over the Four Mile Creek Alternative by reducing the numbers of wetlands that will be impacted and by locating the railroad approximately 3,500 feet west of the Hosford residence and ranch headquarters, which would be directly impacted by the Four Mile Creek Alternative.

In conclusion, I believe that the joint efforts of Mission Engineering and BNSF have resulted in an alignment that is operationally sound and prudent from a safety standpoint,

while mitigating the environmental concerns associated with the earlier alternatives.

This concludes my verified statement.

Daniel R. Hadley

STATE OF MONTANA)
) ss:
COUNTY OF YELLOWSTONE)

Daniel R. Hadley, being first duly sworn, deposes and says he has read the foregoing statement, knows the contents thereof, and that the same are true and correct as stated.

Daniel R. Hadley
Daniel R. Hadley

SUBSCRIBED AND SWORN TO before me this 22nd day of April 1998.

Notary Public for the State of
Montana.
SEAL Residing at Billings, Mt.
My commission expires 12/31/2001

ATTACHMENT - 1
TONGUE RIVER RAILROAD
(ALTERNATE COST COMPARISON)
CONSTRUCTION PROGRAM CAPITAL COSTS
(1998 ESCALATED DOLLARS)

4/6/98

CONSTRUCTION ITEM	CONST. YEAR	WEST ALIGNMENT TO SPR. CREEK	MILES CITY TO WEST ALIGNMENT	MILES CITY TO SPR. CREEK
Engineering/Geotechnical Design	1	$3,500,000	$10,500,000	$14,000,000
	2			
	3			
Subtotal		**$3,500,000**	**$10,500,000**	**$14,000,000**
Mobilization/Demobilization	1	$700,000	$800,000	$1,500,000
	2			
	3	$700,000	$800,000	$1,500,000
Subtotal		**$1,400,000**	**$1,600,000**	**$3,000,000**
Movement of Ex. Utilities	1	$450,000	$2,550,000	$3,000,000
	2			
	3			
Subtotal		**$450,000**	**$2,550,000**	**$3,000,000**
Civil (Earthwork)	1	$20,869,731	$26,790,512	$47,660,243
	2	$19,915,186	$25,638,012	$45,553,198
	3	$13,276,791	$17,092,008	$30,368,799
Subtotal		**$54,061,708**	**$69,520,532**	**$123,582,240**
Major Structures (Bridges)	1	$801,000	$2,143,500	$2,944,500
	2	$801,000	$2,143,500	$2,944,500
	3	$534,000	$1,429,000	$1,963,000
Subtotal		**$2,136,000**	**$5,716,000**	**$7,852,000**
Minor Structures (Culverts)	1	$2,073,560	$4,338,999	$6,412,560
	2	$2,073,560	$4,338,999	$6,412,560
	3	$1,382,374	$2,892,666	$4,275,040
Subtotal		**$5,529,494**	**$11,570,665**	**$17,100,160**
Signals & Communications	1			
	2			
	3	$5,150,250	$29,184,750	$34,335,000
Subtotal		**$5,150,250**	**$29,184,750**	**$34,335,000**
Rail, Switches, Ties, Etc.	1			
	2	$3,360,985	$19,045,582	$22,406,567
	3	$6,721,970	$38,091,164	$44,813,134
Subtotal		**$10,082,955**	**$57,136,746**	**$67,219,701**
Buildings	1			
	2		$600,000	$600,000
	3			
Subtotal		**$0**	**$600,000**	**$600,000**
Fencing, Signs, Seeding, Mulching,	1	$442,570	$886,882	$1,329,451
Slope Protection, Etc.	2			
	3	$407,129	$878,990	$1,286,119
Subtotal		**$849,699**	**$1,765,872**	**$2,615,570**
Contingencies	1			
	2	$6,397,690	$9,017,307	$15,414,997
	3			
Subtotal		**$6,397,690**	**$9,017,307**	**$15,414,997**
OPTIONS				
Ties at Decker & Miles City	3	**$3,054,700**	**$3,249,000**	**$6,303,700**
YEAR TOTALS	1	$28,836,861	$48,009,893	$76,846,755
	2	$32,548,421	$60,783,400	$93,331,821
	3	$31,227,213	$93,617,578	$124,844,792
TOTAL		**$92,612,496**	**$202,410,872**	**$295,023,368**

BEFORE THE
SURFACE TRANSPORTATION BOARD

Finance Docket No. 30186 (Sub-No. 3)

TONGUE RIVER RAILROAD COMPANY --
CONSTRUCTION AND OPERATION

VERIFIED STATEMENT OF

LARRY A. PARKER

My name is Larry A. Parker and I am Director Asset Management for The Burlington Northern and Santa Fe Railway Company (BNSF). My business address is 2650 Lou Menk Drive, Fort Worth, Texas 76131. I have over 26 years of experience in the railroad industry primarily in the area of railroad engineering. In my position I am responsible for the development of preliminary Engineering plans for proposed rail line expansion projects as well as development of Maintenance plans for upgrades on rail lines where traffic is expected to increase. The purpose of my statement is to support the Tongue River Railroad Company's (TRRC) Application to construct its line using the Western Alignment, which I believe offers a more advantageous route over the Four Mile Creek Alternative from an engineering perspective.

In February of 1997, I was requested by TRRC's engineering consultant, Daniel R. Hadley of Mission Engineering Inc., to review the Four Mile Creek Alternative to determine it viability from an engineering perspective. In addition, I discussed the possibilities of a new

Western Alignment. I was also present during an on-site visit in March 1997, and reviewed the engineering profiles and other documents relating to the routes and a flyover of the two routes. I also consulted extensively with Mr. Hadley during my review of the routing alternatives. Based on my study and review of the routes, the Western Alignment is clearly superior from an engineering perspective. My conclusion is based on several factors discussed below and is fully consistent with the views of Mr. Hadley.

The first factor is the controlling grades on the Four Mile Creek Alternative. The Four Mile Creek Alternative has controlling grades of approximately 2.3% Southbound and 1.5% Northbound. In contrast, the Western Alignment controlling grades are approximately 0.9% and 0.5% respectively. The more severe grades that would be present on the Four Mile Creek Alternative would greatly increase maintenance costs for the track structure. The primary movement over the TRRC will be unit coal trains moving in both directions. The more severe grades on the Four Mile Creek Alternative would cause greater wear on the rail and roadbed. Each of these problems would be exacerbated as unit coal trains become bigger and heavier in the future.

The Western Alignment is approximately 12 miles shorter than the Four Mile Creek Alternative. The shorter length means less maintenance costs and disruption of fewer acres of land. A railroad capable of carrying unit coal trains normally requires annual maintenance expenditure of about $20,000 to $30,000 per mile. The greater length would mean additional maintenance for the Four Mile Creek Alternative of approximately $240,000 to $360,000 per year in additional maintenance cost compared to the Western Alignment. Moreover, the combined disadvantages of the greater mileage and increased maintenance would actually reduce the through put capacity of the rail line, both because each train would require a longer operating

time and because maintenance would more frequently interfere with train operations.

BNSF has extensive experience in the construction and maintenance of heavy coal lines. Our policy is to construct rail lines for this type of heavy loading traffic with grades of no more than one percent and no more than three degree curves. The Western Alignment fits squarely within our policy. Based on that experience and our policy, I can say without hesitation that if BNSF were building this line, it would choose the Western Alignment over the Four Mile Creek Alternative. The choice is not even close based on the factors discussed above. The less severe grades involved in the Western Alignment make it vastly more attractive than the Four Mile Creek Alternative from an engineering perspective.

For the foregoing reasons BNSF supports TRRC's application to construct its line over the Western Alignment.

VERIFICATION

COUNTY OF TARRANT §
§
THE STATE OF TEXAS §

Larry A. Parker, being duly sworn, deposes and says that he has read the foregoing statement and that the contents thereof are true and correct to the best of his knowledge and belief.

Larry A. Parker

Subscribed and sworn to before me on this 13 day of April, 1998.

Notary Public

My Commission expires: March 17, 2002

JOY E. MCQUEARY
MY COMMISSION EXPIRES
MARCH 17, 2002

BEFORE THE
SURFACE TRANSPORTATION BOARD

Finance Docket No. 30186 (Sub-No. 3)

TONGUE RIVER RAILROAD COMPANY -- RAIL CONSTRUCTION AND OPERATION -- WESTERN ALIGNMENT IN ROSEBUD AND BIG HORN COUNTIES, MONTANA

VERIFIED STATEMENT OF

ROBERT H. LEILICH

My name is Robert H. Leilich. I have been President of Corporate Strategies, Inc. (CSI) since its founding in 1980. My office address is 5415-A Backlick Road, Springfield, VA. Since approximately 1989, I have been directly involved in CSI's efforts to develop and analyze operating and financial plans for the proposed Tongue River Railroad (TRRC). My company prepared all of the operating plans and most of the economic analyses included in the previous application filed by TRRC on June 28, 1991 in Finance Docket No. 30186 (Sub No. 2). From this work, the Verified Statement of Mr. Vincent J. deSostoa submitted in support of that prior application was prepared.

The purpose of this statement is to describe the Operating Plan presented with this Application in Exhibit D, including our estimate of TRRC employment set forth in Table 1

of that Exhibit. I will also discuss the substantial savings associated with operations over the Western Alignment in contrast to the Four Mile Creek Alternative, as reflected in Attachment 1 to this Statement.

CSI specializes in railroad operations and economic analysis. We have performed approximately 60 studies related to the formation, operation, management, and analysis of regional and short line railroads in the United States and abroad. We have been instrumental in the start up of 13 short line or regional railroads. Two of our studies, including that for the TRRC, have focused on the design and operation of totally new rail lines. Our clients include the Association of American Railroads, many of the biggest electric utilities in the U.S., several major North American Railroads, the Departments of Transportation of various states, the World Bank, Fortune 500 companies, and many regional and short line railroad operators.

I have direct operating experience as a locomotive fireman and, at one time, was a qualified locomotive engineer and train conductor. I have about six years of direct railroad experience, including work in the mechanical department on the former Southern Railway, but mostly in the transportation and operating departments on the former Atchison, Topeka and Santa Fe Railway Company. The latter includes line management experience as a trainmaster on several Santa Fe divisions.

I have an undergraduate degree in Mechanical Engineering, a Masters Degree in Industrial Management, both from Purdue University, plus a Certificate in Transportation culminating a one year graduate program at Yale University as a Strathcona Fellow. I am a certified Surface Transportation Board practitioner.

A. The Operating Plan

I was called upon by TRRC to prepare an Operating Plan, consistent with the Board's rules at 49 C.F.R. 1150.5, in support of its application to construct the Western Alignment. The Operating Plan that I have prepared is incorporated in this Application as Exhibit D. As will be seen from a review of Exhibit D, the Operating Plan addresses TRRC's operations generally on the entire rail line that it is authorized to build, not just operations on the Western Alignment. This is because it is not feasible to develop an Operating Plan that focuses on only one 17 mile segment of an entire railroad. For that reason, more information is set forth in Exhibit D than is directly relevant to the more limited scope of the present construction Application. However, my assumption is that even though TRRC's operations on its rail system are not at issue in this proceeding (because the Board has previously approved prior TRRC applications to construct its entire system), the Board would nonetheless find it convenient for TRRC to re-state its Operating Plan for its entire system in this Application for construction of the Western Alignment. In addition, where relevant, I have made note in Exhibit D of particular elements of the Operating Plan pertinent to the Western Alignment.

In preparing this Operating Plan, I relied on work previously done in connection with TRRC's prior construction applications. As noted above, I was involved in preparing the Operating Plan for TRRC that was presented in Finance Docket No. 30186 (Sub No. 2) and described in the April 29, 1992 Verified Statement of Mr. Vincent J. deSostoa, who then worked with CSI on this project. Mr. deSostoa's statement describes the various data sources that CSI

relied upon in formulating the TRRC Operating Plan submitted in the Sub No. 2 proceeding. In preparing the current Operating Plan submitted with this Application, I consulted closely with TRRC management and have relied on recent data concerning construction/engineering plans supplied to me by Mission Engineering, and updated traffic forecasts supplied to me by Resource Data International, through TRRC management. It also includes the use of some supplemental information provided to me directly by representatives of The Burlington Northern and Santa Fe Railway Company (BNSF).

The Operating Plan that I have prepared assumes that TRRC does not reach agreement with BNSF under which BNSF would conduct the operations over the TRRC. In other words, I have assumed a stand-alone TRRC operation. I understand that TRRC's management is engaged in discussions with BNSF concerning the possibility of BNSF operating the new railroad and/or maintaining its lines. The outline of an alternative Operating Plan which assumes a BNSF operation is described in the Verified Statement of Thomas G. Kraemer, which also accompanies this Application.

The Operating Plan set forth in Exhibit D is substantially similar to that filed June 28, 1991 in Finance Docket 30186 (Sub. No. 2). The only significant differences between the two Plans are as follows:

- The Western Alignment is about 1.4 miles shorter than the originally considered "Preferred Alignment" and about 12 miles shorter than the "Four Mile Creek Alternative";

- The volume of coal projected to be initially handled is about 39 percent greater (26.4 million tons versus 19 million tons), but the number of trains is only about 20 percent greater, due to increased transportation productivity (38.5 versus 32 round trips per week);

- Anticipated future traffic volumes are substantially greater;
- The plant will be designed for higher axle loadings;
- Employment will be greater, especially for train and engine crews (as described below and shown in Table 1);
- The number of locomotive units per train is reduced from three to two, due to higher horsepower and adhesion per unit.

Again assuming no agreement is reached with the BNSF to operate the TRRC, I prepared an estimate of the approximate number of employees by position required to operate the railroad as an independent company. This is shown in Table 1 set forth in Exhibit D. In preparing this estimate, I relied upon my knowledge and experience in the railroad industry and, specifically, in rail operations.

No train dispatching employees are included in my estimate, as it is probable that BNSF would integrate the dispatching of trains in conjunction with its own operations. It is my understanding that TRRC management will continue to pursue discussions with BNSF to evaluate alternatives which further improve the economics and operating efficiency of the railroad. If there are good operating and economic reasons why both parties should utilize BNSF employees to fulfill the responsibilities of positions shown in Table 1, it is possible that many or most TRRC positions would not be required.

B. Operating Advantages of Western Alignment

Based on my analysis, and as reflected in Attachment 1 to this Statement, the Western Alignment is the route best suited to meeting TRRC's business and operating

objectives, while minimizing or eliminating certain environmental concerns. In that connection, the proposed Western Alignment offers substantial long term advantages with respect to operating efficiency, operating costs, and improved safety over the Four Mile Creek Alternative. CSI's own estimates of operating costs and comparable efficiencies in terms of avoidable locomotive and equipment capital, maintenance costs, fuel, and labor costs are summarized in Attachment 1 to this Statement. In Attachment 1, I have assumed a 5.5 trains/day operation, which would reflect the initial (start-up) level of operations.

Our estimates do not include the significant added maintenance costs that would be required as a result of the greater curvature and substantially steeper gradients of the Four Mile Creek Alternative. The gradients of the Western Alignment and those of the Four Mile Creek Alternative are reflected in the two charts which are set forth as Attachment 2 to my Verified Statement. A rail line that has more curves and severe grades requires more maintenance due to the greater degree of rail wear and ballast fouling (from wheel sanding) attributable to operating heavy coal trains. The lower degree of curvature and lower gradients of the Western Alignment will thus translate into lower maintenance costs. (Total curvature on the Western Alignment is 2246 degrees of central angle, or the equivalent of about 6.25 complete circles. By contrast, the curvature on the Four Mile Creek Alternative is 3369 degrees or 9.35 complete circles. Total rise (climb) and fall (descent) on the proposed Western Alignment are 2313 feet and 1217 feet respectively (East to West). Comparable rise and fall on the Four Mile Creek Alternative are 2928 and 1832 feet, respectively.)

As shown in Attachment 1, the estimated annual savings in just avoidable costs of

conducting operations over the Western Alignment in comparison to the Four Mile Creek routes are very substantial. These savings result primarily from the lower gradients, shorter distance, and consequent reduced time needed to make a round trip on the Western Alignment, enabling cars to make more trips, and carry more tons, each year. For example, the savings in locomotive and car capital costs are $0.5 million annually due largely to the need for fewer locomotives to operate over the lower gradients of the Western Alignment and the higher coal car productivity (and thus fewer coal cars needed) associated with handling the same annual volume on the Western Alignment versus the Four Mile Creek route. Fuel savings would amount to $1.3 million annually due to the need to use less fuel resulting from differences in line geometry and topography. Total avoidable cost savings would amount to $2.8 million annually, sufficient to pay back the incremental investment in the Western Alignment in about three years. Annual savings associated with the Western Alignment will of course grow each year as additional traffic is moved.

Further, I have prepared the charts attached to this Statement as Attachment 3 to compare the speed, time and distance associated with transporting empty and loaded coal cars over the Western Alignment and the Four Mile Creek routes. On these charts, which reflect the 50 mph speed limit on most of both routes, the jagged line reflects the actual speed of the trains as influenced by the gradient of each route, while the sloping line reflects the cumulative time and cumulative distance traveled. As is plain from a review of both charts, both empty and loaded trains will be able to travel the same distance in considerably less time utilizing the Western Alternative (e.g., 120 miles in less than 180 minutes for a loaded train) in contrast to the

Four Mile Creek Alternative (e.g., 120 miles in approximately 240 minutes).

Besides the substantial economic savings over the Four Mile Creek Alternative described above and reflected in Attachments 1 and 3, the reduction in annual energy consumption of approximately 2 million gallons will result in corresponding reductions in exhaust emissions. Reduced energy consumption will also save approximately $1.3 million each year in export dollars associated with the importation of fuel. These derivative benefits will also grow each year as traffic volume increases.

After carefully reviewing all the operating and economic issues associated with this project, I have concluded that the Western Alignment is the best option to meet TRRC and BNSF needs.

C. Financial Analysis

In addition to preparing the Operating Plan for this Application and analyzing the operating advantages of the Western Alignment over the Four Mile Creek Alternative, I also prepared the financial model used by TRRC and its financial advisors to formulate the financial statements submitted in support of this Application. In utilizing this model, which comprehensively developed the data used for the complete pro formas for the TRRC, I conservatively assumed, from an investment viewpoint, that TRRC would use its own motive power to pull all of the trains on its line. Without an agreement with BNSF to do otherwise, I have no basis on which to assess the cost of using more efficient BNSF power. Motive power run through agreements, which are common among most Class I railroads, make better use of

locomotive power resources by reducing the high cost of locomotive handling and idle time that would otherwise be experienced. Of course, once TRRC initiates operations, it will be in a better position to negotiate more cost-effective alternatives with BNSF. Thus, I anticipate that TRRC will be in a position to achieve more favorable financial results than even those forecast in the pro formas presented with its Application. (The financial data presented in the pro formas is not identical to the data shown in Attachment 1, because that Attachment assumes the use of BNSF motive power while the pro formas assume the use of TRRC power. The purpose of Attachment 1 was to show savings associated with operating over the Western Alignment, and those savings would be even greater were TRRC power used. Thus, my assumption of BNSF power in formulating Attachment 1 was conservative for purposes of that savings analysis.)

The financial model used by TRRC and its advisors is based on a customized version of CSI's Short Line Planner. This is a very sophisticated financial model developed and improved by CSI over a period of ten years to prepare, for new or existing railroads, complete pro formas that are sensitive to the many variables related to operations, revenues, debt, equity, interest rates, taxes, and many other factors that also affect cash flow and profits. The Short Line Planner was used by CSI in developing the pro formas presented with TRRC's last application to the ICC and has been utilized by numerous regional and short line railroads for economic and operations planning.

The financial model used here is sensitive to management decision-making, material prices, fuel consumption rates and other operating factors. The model is readily adaptable to highly complex situations such as the proposed project and is driven by a series of inputs, which

include traffic projections, revenue assumptions, operating and maintenance equipment plans, staffing plans, and other financial and operating factors.

This completes my statement.

ATTACHMENT 1
SUMMARY OF OPERATING AND ECONOMIC ADVANTAGES OF PROPOSED WESTERN ALIGNMENT - 5.5 TRAINS PER DAY (EACH WAY) - AVOIDABLE COST BASIS (4TH QTR 97) -

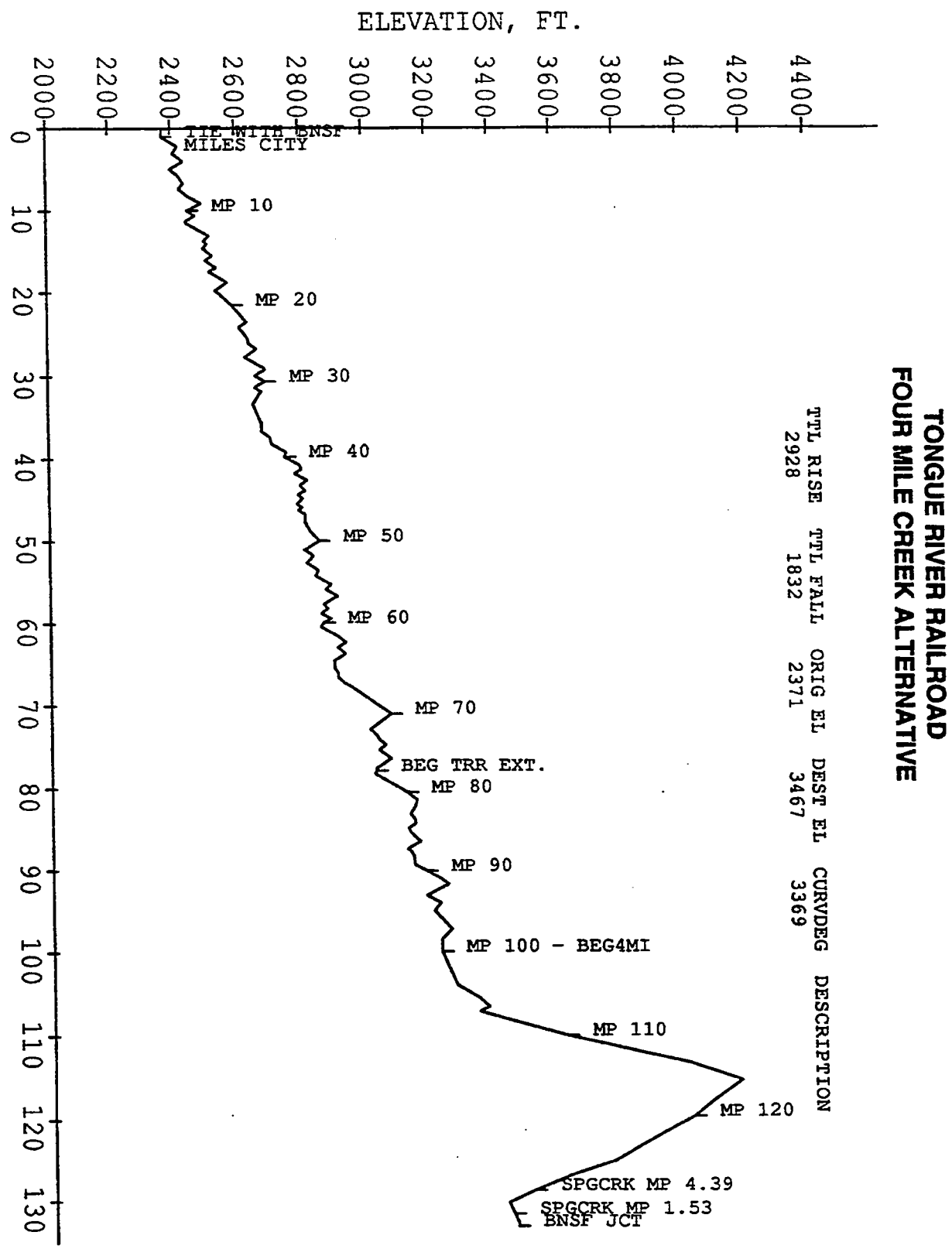
	Note	Western Alignment	4-Mile Creek Alternative	Difference
Operating Statistics				
Trains Per Day (Each Way)		5.5	5.5	
One Way Miles - Train		120.4	132.8	(12)
Cars Per Train		113.0	113.0	
No. of Head End Loco Units		2	2	
Helper Units	(1,24)	2	3	(1)
One Way Miles - Helper Locos	(1,24)	5.3	26.6	(21)
Gross Tons Per Train: Empty	(1)	3,443	3,443	
Loaded	(1)	16,651	16,651	
Fuel - Total Gallons - Empty	(1)	896	1,039	(143)
Loaded	(1)	930	1,759	(829)
Operating (Train) Employees (Table 1)	(2)	38.4	49.0	(11)
Estimated Annual Wage + Fringe Cost per Person		$46,860	$46,860	
Total Annual Train Miles	(3)	476,586	525,888	(49,302)
Total Annual Train Gross Ton-Miles (1,000)	(4)	4,788,260	5,283,597	(495,337)
Total Annual Train Helper Gross Ton-Miles (1,000)	(5)	8,154	61,622	(53,467)
Total Annual Locomotive Unit Miles - Head End	(6)	953,172	1,051,776	(98,604)
Total Annual Locomotive Unit Miles - Helpers	(7)	41,818	316,008	(274,190)
Locomotive Capital Costs				
Round Trip Hours - Per Train	(8)	10.7	12.3	(2)
Locomotive Unit Hours/Yr - Head End	(9)	46,411	52,549	(6,138)
Loco Units Required to Protect Service	(10)	9	10	(1)
Round Trip Hours - Helper Set	(11,24)	1.1	3.5	(2)
Trains Helped Per Day	(12,24)	3.3	5.5	(2)
Helper Units Required	(13)	3	3	
Estimated Average Value per SD70MAC		$2,500,000	$2,500,000	
Annual Capital Cost per SD70MAC Unit	(14)	285,697	285,697	
Estimated Average Value per SD40-2		$750,000	$750,000	
Annual Capital Cost per SD40-2 Unit	(15)	102,294	102,294	
Head End Power Cost Per Year ($Millions)	(15)	$2.6	$2.9	($0.3)
Helper Power Cost Per Year ($Millions)	(16)	$0.3	$0.3	
Total Locomotive Capital Costs ($Millions)		$2.9	$3.2	($0.3)
Car Capital Costs				
Estimated Average Value per Coal Car		50,000	50,000	
Capital Cost Per Car Hour On Line	(17)	$0.717	$0.717	
Annual Car Hours On Line	(18)	2,398,493	2,745,290	(346,797)
Annual Car Capital Cost ($Millions)	(19)	$1.7	$2.0	($0.2)
Total Annual Capital Costs ($Millions)		**$4.6**	**$5.2**	**($0.5)**
Locomotive Maintenance Costs				
Per 1000 GTM	(20)	$0.202	$0.202	
Per Loco Unit Mile	(20)	$0.450	$0.450	
Annual Head End Power Maint. Cost ($Millions)	(21)	$1.4	$1.5	($0.1)
Annual Helper Power Maint. Cost ($Millions)	(21)	$0.02	$0.15	($0.1)
Total Annual Maintenance Costs ($Millions)		**$1.4**	**$1.7**	**($0.3)**
Fuel Costs				
Estimated Cost Per Gallon (Delivered at Miles City)		$0.70	$0.70	
Gallons per Year (Millions)	(22)	3.6	5.5	(1.9)
Annual Fuel Cost ($Millions)		**$2.5**	**$3.9**	**($1.3)**
Track Maintenance - Main Line Only				
Estimated Ave Unit Cost per: 1000GTM	(23)	$0.2721	$0.2721	
LUM	(23)	$0.0034	$0.0034	
Annual Maintenance Cost ($Millions)	(21)	**$1.3**	**$1.5**	**($0.2)**
Train Labor				
Annual Train Labor Costs ($Millions)		**$1.8**	**$2.3**	**($0.5)**
Total Annual Avoidable Costs		**$11.7**	**$14.5**	**($2.8)**

STB_EXH.WK4

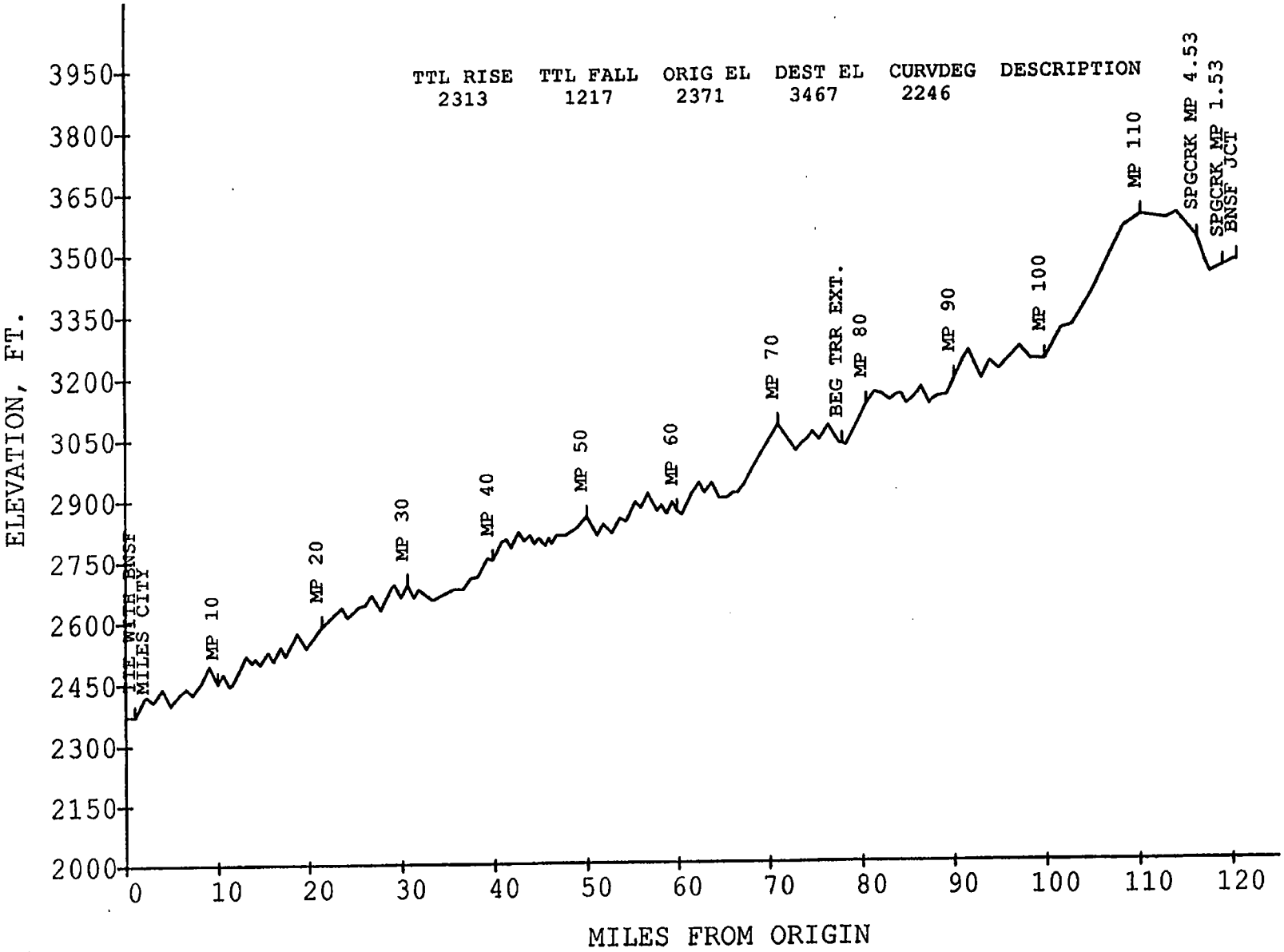
Notes to Attachment 1

1. Based on CSI's TPC. Helpers also Used for Braking on Four-Mile Creek Alternative
2. 4-Mile Estimated Based on Ratio of Total Train Hours x No. of Employees
3. Trains Per Day x 2 x One-Way Miles x 360 Days per Year
4. (Gross Tons (Empty + Loaded Train) x Miles
5. Helper Lococ Tons (195 Each x)Number of Units x One Way Miles x 2) x No. Trains/Day x 360/1000
6. Train Miles x 2 Units
7. One-Way Helper Miles x 2 x No. Units x Trains/Day x 360 Days per Year
8. TPC Running Time Plus 4 Hours at Decker/Spring Creek and 1 Hour En Route Delay
9. 2 SD70MAC Units x (RT Hours + 1 Hr Idle Time) x 5.5 Trips Per Day x 360 Days per Year
10. Total Locomotive Unit Hours Divided by Average Hours in Service per Unit (360 days per year x 24 hours x 65 Percent Time in Service = 5616), 'Rounded up to Nearest Whole Number.
11. Approximate Running Time (Loaded) with Helpers (30 Minutes for Western Alignment, 100 Minutes for 4-Mile Alternative) plus 1/2 Running Time for Return Trip Plus 1 Hour Delay Per Cycle
12. 24 Hours / Helper Hours per RT, Rounded Down
13. Helper Units Required: Western Alignment = 2 Units Plus 1 Spare
    4-Mile Alternative - 2 Sets of 3 Units to Protect Service Plus 1 Spare
14. Estimated Value amortized over 30 years at 11 Percent.
15. Assume Older Unit with Initial Value, Amortized over 15 Years at 11 Percent
16. Cost per Year per Unit x No. Loco Units.
17. Estimated Value per Car, Amortized over 20 Years at 11 Percent, Converted to Hourly Cost
18. Round Trip Time On Line x Cars Per Train x Trains per Day x 360 Days per Year
19. This Might be Considered an Economic Cost, Since about 60 Percent of Cars are Shipper - Not Railroad - Owned.
20. Former BN 1994 Unit Cost Escalated to 4th Qtr 1997 Level
21. Sum of Unit Cost x Annual Units for GTM and LUM Portions
22. Gallons per Round Trip x No. Trains x 360 Days per Year Divided by 1 Million.
23. One-half of Former BN 1994 Unit Cost Escalated to 4th Qtr 1997 Level
24. On Western Alignment, Helpers are Needed Only on Trains from Decker and Wyoming, or Roughly 60 Percent of Trains. Trains from Spring Creek do not Require Helpers. To Model Economic Effect, One-Way Helper Miles and Hours are Assumed at 60 Percent of Their Actual Value. On the Four-Mile Creek Alternative, all Trains Need Helpers. Part-Time Helper Train Crew Labor is Assumed for the Western Alignment. Full time will be Required for the Four Mile Creek Alternative.

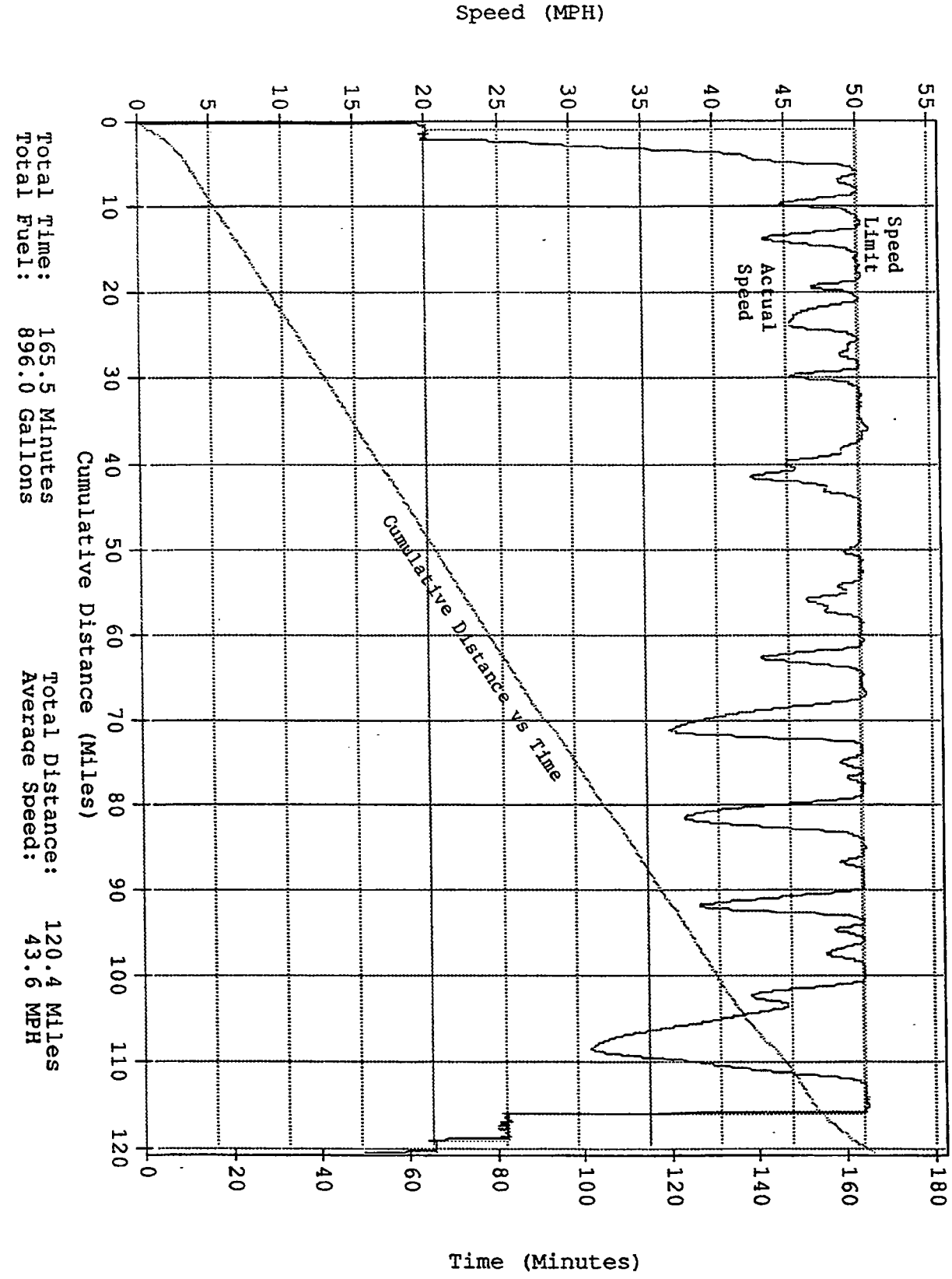
ATTACHMENT 2



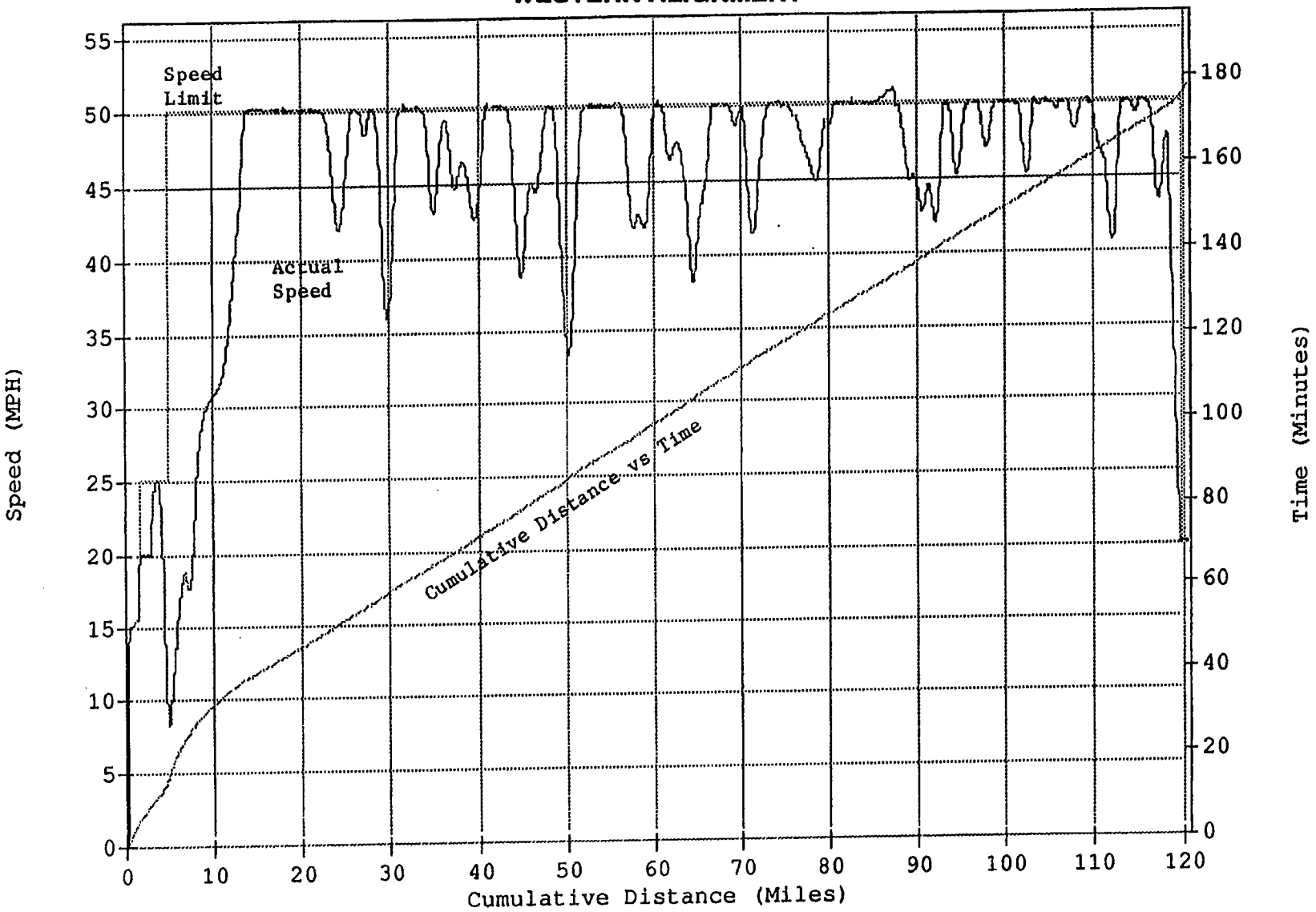
TONGUE RIVER RAILROAD
WESTERN ALIGNMENT



ATTACHMENT 3



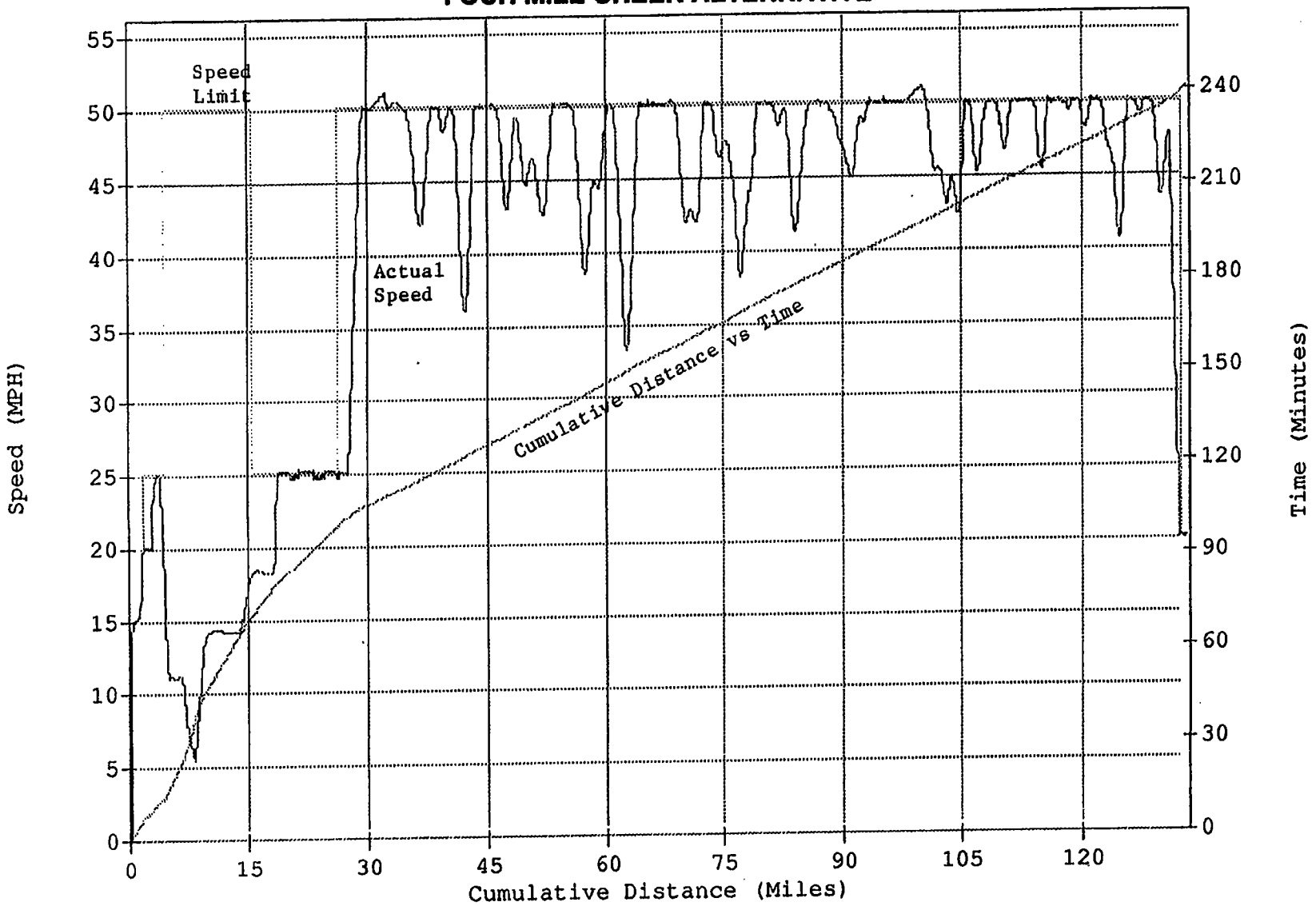
LOADED COAL TRAIN
WESTERN ALIGNMENT



Total Time: 177.4 Minutes
Total Fuel: 930.0 Gallons

Total Distance: 120.4 Miles
Average Speed: 40.7 MPH

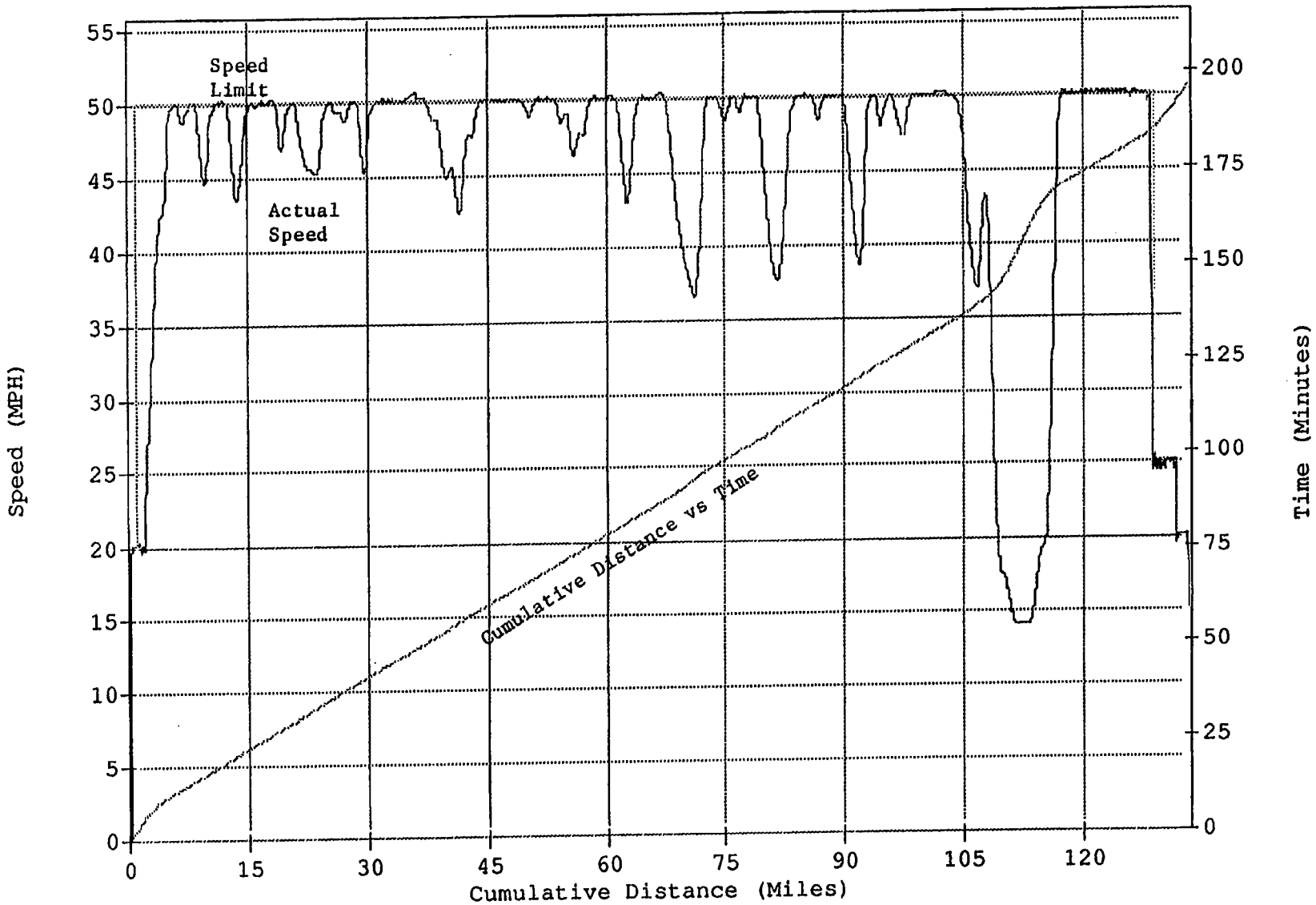
LOADED COAL TRAIN
FOUR MILE CREEK ALTERNATIVE



Total Time: 240.5 Minutes
Total Fuel: 1759.0 Gallons

Total Distance: 132.8 Miles
Average Speed: 33.1 MPH

EMPTY COAL TRAIN
FOUR MILE CREEK ALTERNATIVE

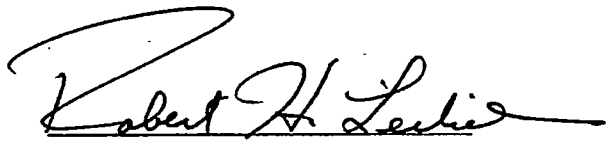


Total Time: 195.7 Minutes
Total Fuel: 1039.0 Gallons

Total Distance: 132.8 Miles
Average Speed: 40.7 MPH

VERIFICATION

I, Robert H. Leilich, hereby declare under penalty of perjury that the foregoing is true and correct to the best of my knowledge and belief. This Verification is executed pursuant to 28 U.S.C. § 1746.



Robert H. Leilich

Dated this 23rd day of April, 1998.

BEFORE THE
SURFACE TRANSPORTATION BOARD

Finance Docket No. 30186 (Sub-No. 3)

TONGUE RIVER RAILROAD COMPANY --
CONSTRUCTION AND OPERATION

VERIFIED STATEMENT OF

THOMAS G. KRAEMER

My name is Thomas G. Kraemer. I am currently Vice President Coal and Grain Operations for The Burlington Northern and Santa Fe Railway Company ("BNSF"). My responsibilities include developing operating strategies, capacity expansion plans, and equipment investment plans for the coal and grain business units of the BNSF. As part of those tasks, I also conduct economic analysis of long-term coal and grain transportation investment alternatives and conduct daily service plans for coal and grain customers. Since 1981 I have been employed by BNSF or its predecessors in various marketing, planning, and equipment management positions. I hold a B.S. from the University of Minnesota and an M.B.A. from Mankato State University.

My business address is 2650 Lou Menk Drive, Fort Worth TX 76131-2830. This statement is submitted on behalf of BNSF in support of the line construction application of the Tongue River Railroad Company.

I have reviewed the Tongue River Railroad's revised operating plan for the

Western Alignment Alternative and will supplement Tongue River's operating plan with a general description of BNSF's operating plans for the project to the extent possible. Although it is our expectation that BNSF and Tongue River will enter into a long term operating agreement in the near future, operating terms are not yet finalized. In addition, discussions with labor are continuing, and depending on the outcome of those discussions, crew issues may be subject to change. The anticipated operating agreement will address dispatching, operating rules, crewing, track maintenance standards, and requirements for fulfillment of common carrier obligations. In the absence of specific agreements between the parties at this early stage, I will address in general terms what is the expected plan of operation from BNSF's perspective.

As mentioned in Tongue River's Operating Plan, the proposed route via the Western Alignment Alternative includes a line running between Miles City and Decker, MT. The single track will have approximately seven sidings for meeting or passing trains and remote power switches controlled by BNSF's dispatcher in Fort Worth, Texas.

Traffic Projections and Scheduling

Projections for startup operations are approximately eight overhead (four loaded and four empty) trains per day, transporting approximately 20 million tons of coal per year. The Western Alignment should be able to handle efficiently 18 coal trains per day. The startup projection is based on BNSF's analysis of unit coal trains available for overhead re-route over the Tongue River. These coal trains would originate from Wyoming PRB mines as well as Spring Creek and Decker, Montana mines and be destined to certain utility customers in Minnesota or Wisconsin or beyond via water.

Changes in Service Patterns

As mines develop in the Ashland area, train density would increase. Local traffic from the Ashland area is expected to move north to Glendive, MT for furtherance to markets in North Dakota, Minnesota, Wisconsin or via water at the Head of the Lakes to eastern markets.

Certain customers and BNSF will benefit from reduced transit times for shipments from the Wyoming PRB and Spring Creek/Decker mines to certain Upper Midwest markets and beyond. Additionally, BNSF's non-coal customers will indirectly benefit from the Tongue River construction since the rerouting of overhead coal trains over Tongue River will substantially improve available line capacity over BNSF's route from Sheridan, Wyoming to Huntley, MT thence to Miles City, MT.

BNSF coal customers should also benefit from Tongue River's proposal. New mine development will provide new compliance coal sources for customers such as Midwest Energy Resources, Northern States Power, Minnesota Power & Light, Otter Tail Power Company, Manitoba Hydro, and Wisconsin Power & Light. In addition to increased coal options, for some of BNSF's customers, the Tongue River construction will result in shorter distances to market and a substantial reduction in train cycle times versus coal originating from the Wyoming PRB.

Crews, Locomotive Power, and Rolling Stock

Currently, it is anticipated that BNSF will provide all locomotive power for

trainsets owned by BNSF or its utility customers. Projected power consists are discussed in the Verified Statement of David Mahle. Specific terms for run-through over Tongue River as well as terms related to crew and maintenance issues are being negotiated between BNSF and Tongue River and BNSF's labor forces. It is our preference to use BNSF crews for the Tongue River traffic, and we expect to reach a mutually satisfactory agreement with labor concerning this service. Generally, unit trainsets of 100-120 coal cars per train owned or leased by respective shippers will be used.

Associated Abandonments and Operating Economics

BNSF does not expect any abandonments or discontinuances of its lines resulting from the Tongue River line construction. As identified previously, expected operating economies will result from reduction in cycle times for some existing coal moves and enhancement of BNSF's available line capacity.

The tremendous potential for new mine development as well as the expected operating economies brought about by the Tongue River line construction cannot be disputed. BNSF and its customer base should directly benefit from the construction. Accordingly, BNSF requests prompt approval of the Western Alignment proposal.

VERIFICATION

THE STATE OF TEXAS)
)
COUNTY OF TARRANT)

Thomas G. Kraemer, being duly sworn, deposes and says that he has read the foregoing statement, and that the contents thereof are true and correct to the best of his knowledge and belief.

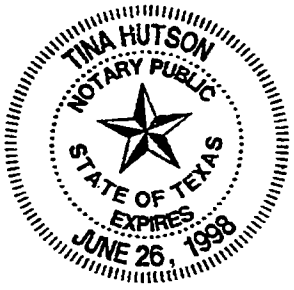
Thomas G. Kraemer

Subscribed and sworn to before me on this 15th day of April, 1998.

Notary Public

My Commission expires:

_____



BEFORE THE
SURFACE TRANSPORTATION BOARD

Finance Docket No. 30186 (Sub-No. 3)

TONGUE RIVER RAILROAD COMPANY –
CONSTRUCTION AND OPERATION

VERIFIED STATEMENT OF

DAVID J. MAHLE

My name is David J. Mahle and I am Director of Capacity Planning for The Burlington Northern and Santa Fe Railway Company (BNSF) with a business address of 3017 Lou Menk Drive, Fort Worth, Texas 76131-2830. I began my career with BNSF's predecessor in 1968 as a Management Trainee and have held various positions in the Operations Department including terminal trainmaster, assistant terminal superintendent, director operations support, and director operations analysis. In my present position I am responsible for determining line capacity requirements to support increased traffic levels and operational changes.

The purpose of my statement is to support the Tongue River Railroad Company's (TRRC) application to construct its line over the Western Alignment in lieu of the Four Mile Creek Alternative. In reaching my conclusion, I have compared the operating characteristics of

both proposed routes. The primary tool I relied on for making the comparison was BNSF's "Train Performance Model." This tool indicates such factors as train speed, fuel usage, and drawbar forces based on train parameters and characteristic of the lines including grades, curves and speed limits. The comparison of the two routing alternatives leaves little doubt that the Western Alignment is the much preferred option.

The revised Western Alignment is approximately 12 miles shorter than the Four Mile Creek Alternative. The difference in length translates into higher operating costs for the Four Mile Creek Alternative as opposed to the Western Alignment. For example, the additional miles means that a typical coal train would take an additional 84 minutes of running time between Miles City and Decker, MT on a round-trip basis. In addition, this typical coal train would burn an additional 827 gallons of fuel for the same round-trip. Thus, the additional mileage results in increased operating costs of $600 per trip for fuel.

Another factor favoring the Western Alignment is the prevailing grades on each route. The Four Mile Creek Alternative has a maximum ascending grade for northbound loaded trains of approximately 1.5% extending for a distance of 13 miles and a maximum descending grade of approximately 2.3% extending for 3.18 miles. In contrast, the Western Alignment has a maximum ascending grade for loaded trains of 0.5% for 2.1 miles and then a gradual descending grade to Miles City. The difference is significant in terms of operating constraints. For example, the maximum speed on the Western Alignment for loaded trains would be 45 mph (if BNSF operating rules apply), while on the Four Mile Creek Alternative the maximum speed would also

be 45 mph (if BNSF operating rules apply) but would be limited to 20 mph on the steep descending grade.

The more severe grades on the Four Mile Creek Alternative would also require more helper locomotives for the loaded moves between Decker and Miles City. Assuming BNSF operation over the line, loaded unit trains moving over the Western Alignment would require two SD70 MAC locomotives on the head end of the train plus one SD70 MAC helper for a short distance on trackage traversed prior to TRRC. Loaded coal trains on the Four Mile Creek Alternative would need three SD70 MAC helpers for over 13 miles on TRRC, thereby significantly increasing operating costs. The more severe grades would also require a greater use of braking for both locomotives and rail cars on the descending grades. This will increase the incidence of train separations due to higher drawbar forces and will put added wear on draft gears, wheels and brake assemblies which translates into higher costs both for BNSF on its cars and locomotives and for our customers on their utility owned cars.

As I mentioned earlier, the Four Mile Creek Alternative would result in larger fuel consumption than would the Western Alignment. Each train would burn an additional 827 gallons for load per round-trip. The additional fuel burn would result in greater emissions of hydrocarbons into the air.

Industry trends over the past few years clearly indicate that the ability to operate heavy axle load trains at the lowest cost is essential for competitive transportation service. These lowest costs benefit BNSF, our utility customers and partners , and in the long run, the power

consuming public.

In conclusion, the Four Mile Creek Alternative is inferior from an operating and economic standpoint as discussed above. BNSF strongly supports the TRRC's construction application and clearly favors the Western Alignment.

VERIFICATION

THE STATE OF TEXAS §
§
COUNTY OF TARRANT §

David J. Mahle, being duly sworn, deposes and says that he has read the foregoing statement, and that the contents thereof are true and correct to the best of his knowledge and belief.

David J. Mahle

Subscribed and sworn to before me on this 14th day of April, 1998.

Notary Public

My commission expires:

BETTY REINERT
Notary Public
STATE OF TEXAS
My Comm. Exp. 04/16/2001

BEFORE THE
SURFACE TRANSPORTATION BOARD

Finance Docket No. 30186 (Sub-No. 3)

TONGUE RIVER RAILROAD COMPANY -- RAIL CONSTRUCTION AND OPERATION -- WESTERN ALIGNMENT IN ROSEBUD AND BIG HORN COUNTIES, MONTANA

VERIFIED STATEMENT OF

FRANCIS M. COX, III

My name is Francis M. Cox, III and my business address is 270 Park Avenue, New York, New York. I am a Vice President and the Railroad Industry Executive within the Transportation Group of Chase Securities, Inc. I received a B.S. degree from Georgetown University and an M.B.A. from New York University.

Chase Securities, Inc. is a wholly owned subsidiary of The Chase Manhattan Bank (collectively "Chase"). Chase is a leading global financial institution with a presence in more than 50 countries, with clients located in more than 200 countries. As of December 31, 1997 Chase had assets in excess of $365.0 billion and a market capitalization of $46 billion.

In 1997 Chase was the leading arranger of syndicated bank loans. Chase also received numerous awards in recognition of its ability and expertise in arranging Project

Finance debt. In 1997 Chase was rated the number 1 Project Finance Lead Arranger for the Americas, Asia and Australia as well as the number 1 Project Finance Global Lead Arranger.

Chase is also a leading financial institution to the railroad industry. Chase has had a dedicated industry focus since 1945 and has railroad client relationships dating back to 1895. Chase is the number 1 arranger of loans to the railroad industry and is the Credit Facility Administrative Agent for five of the seven Class 1 U.S. Railroads. In addition to bank loans, Chase underwrites and distributes railroad industry debt in the private and public capital markets. These products include: commercial paper and medium term and long term notes. Chase is also a provider of interest rate and energy derivatives that are utilized by clients to hedge their exposure to these risks. Chase also advises these clients with respect to strategic industry issues.

I have been employed at Chase since 1960. I have over thirty-five years of experience in a variety of banking, corporate finance and marketing assignments servicing major U.S. and multinational companies. In my current position, which I have held since 1987, I am responsible for the coordinated delivery of corporate finance products and services to Chase's railroad industry clients.

I have previously submitted testimony to the Surface Transportation Board regarding rail transportation finance matters. Most recently, in March 1998, I submitted a joint verified statement with other bankers and securities analysts in STB Ex Parte No. 575 in support of the Comments of the Association of American Railroads regarding rail access and competition issues. I have also analyzed and advised railroads about the appropriate way to structure projects to attract capital investment in the form of both equity and debt.

FINANCING PLAN

Chase's role in connection with the application to the Surface Transportation Board ("STB") by the Tongue River Railroad Company ("TRRC") has been to assist TRRC's management in devising a financing plan for the construction and operation of the proposed Tongue River Railroad (the "TRR").

The proposed financing plan for TRRC amends and supplements the plan described in TRRC's previous application filed on June 28, 1991. The current financing plan was prepared by Chase based on our analysis of the extensive financial and operating feasibility studies prepared by Corporate Strategies, Inc. ("CSI"). It has been Chase's responsibility to evaluate the financial feasibility of the TRR, including the proposed Western Alignment that is the subject of the Application. Thus we reviewed CSI's assumptions, including projected tonnages, income statements, balance sheets and cash flow statements. Based upon our knowledge of the financial markets, and subject to completion of the contractual arrangements for the TRR, we believe that the structure described below is a sound plan for financing the project.

Extensive discussions about viable economic alternatives with TRRC's management have led to the selection of a financing structure in which lenders will have recourse solely to the assets and revenues of the TRR. This type of financing is commonly referred to as "project" financing. Lenders in project financing evaluate the projected revenues and expenses of a project in establishing its debt capacity. In this regard, the relative certainty associated with the revenues and expenses is of particular importance, and often

project financings use long-term purchase contracts for the output of the project. In the absence of contractual commitments, lenders will use expert consultant studies to establish reasonable forecasted levels of revenues and expenses. Financings of this type generally take the form of a construction loan for the construction phase of the project and a term loan for the operation phase.

Financing Structure

The ultimate financing structure will include a substantial equity commitment from the partners in TRRC as well as third-party debt. The final debt-equity ratio, which in the Application was projected to be approximately 65-35, will depend upon a number of factors, including market conditions and the specific credit structure arranged for the project. The debt, which is expected to be obtained from the Bank market, will bear competitive market rates of interest and have various maturities available in the market at the time of issuance. The specific structure will include a credit facility provided by a syndicate of commercial banks and/or institutional lenders which will consist of a construction loan with a term equal to the construction period and a commitment, from the construction lender or another institution, to provide a term loan of at least 15 years upon completion. During construction, the interest payable on the construction loan will be added to the principal amount of the loan. The principal will be amortized in accordance with a schedule that achieves certain average loan life targets and reflects the projected pattern of cash flow generated by TRR.

Credit Structure

In developing a credit structure that would support a project financing, we have focused on the various elements of the project that lenders will look to for assurance that project risks have been dealt with. For example, the form of the construction contract is designed to deal with most of the completion risks involved with large projects. Although the specific form of construction contract for the TRR has not been finalized, it is expected to take the form of a Guaranteed Maximum Price Contract, in which the contractor undertakes to deliver the completed project for a fixed price and on a guaranteed date of completion. The contract would be supported by a performance bond, and liquidated damages would be payable for delayed completion. In addition, as mentioned above, the amount of debt that can be raised for the TRR is also dependent on the level of certainty of the project's revenue stream. The most likely sources of committed revenue include trackage rights agreements and/or long-term take-or-pay contracts with utilities or coal producers.

Under a typical trackage rights agreement, another carrier using the TRR track (the "User") would pay TRRC a specific charge per car or car-mile for use of the TRR lines. The User would utilize its own crews, motive power and, in some cases, coal cars to operate over TRR lines, while the TRRC would continue to be responsible for its own movements. A trackage rights agreement might call for an annual minimum usage or a reservation charge that would entitle the User to send a specified number of cars per year. Such an agreement would enhance the financability of the project, although the ultimate credit structure for the TRR will depend on the precise arrangements agreed by the parties. Procedures involving any trackage rights agreement would be subject to the regulations of the Surface Transportation Board.

ASSUMPTIONS RELATED TO FINANCING PLAN

Chase is in the market daily, staying current with the rate and maturity preferences of lenders, the favored types of securities and trends regarding credit standards. In particular, our assumptions and estimates as to maturities and amortization are generally based on our assessment of the market and the securities being offered (including the availability of certain credit ratings), upon our analysis of similar transactions which were completed in comparable markets and upon informal discussions with potential lenders. The security provided to potential lenders to TRRC will include, but not be limited to, a mortgage on the assets of the TRRC, the assignment of all contracts of TRRC, including any trackage rights agreements or contracts with utilities, and a pledge of revenues of the TRR.

CONCLUSION

In conclusion, three points warrant reiteration. First, it is our belief that depending on the market conditions at the time of issuance, financing the Tongue River Railroad would be an attractive investment opportunity for commercial and institutional lenders. Second, market conditions can vary from day to day. Therefore, the actual financing structure, interest rates, maturities, sources of funds and the actual success of the financing will depend on the market conditions in effect at the time the financing is arranged. Third, it should be understood that Chase has been retained solely as TRRC's financial advisor. We have not been retained or requested, at this point, to act as underwriter or otherwise with respect to the placement of the debt which TRRC proposes to issue.

This concludes my verified statement.

VERIFICATION

STATE OF NEW YORK)
) ss:
COUNTY OF NEW YORK)

Francis M. Cox, III, being first duly sworn, deposes and says he has read the foregoing statement, knows the contents thereof, and that the same are true and correct to the best of his knowledge and belief.

Francis M. Cox, III

SUBSCRIBED AND SWORN TO before me this 23rd day of April, 1998.

Notary Public for the State of
New York.
Residing at
My commission expires:

SEAL

CAROL A. MAYERS
NOTARY PUBLIC, State of New York
No. 01MA5084316
Qualified in Bronx County
Commission Expires Sept. 2, 1998

APPENDIX B

APPENDIX B

SUPPORTING LETTERS FROM ELECTED OFFICIALS

Marc Racicot, Governor, State of Montana

Conrad Burns, United States Senator -- Montana

Max Baucus, United States Senator -- Montana

Rick Hill, United States Congressman -- Montana

OFFICE OF THE GOVERNOR
STATE OF MONTANA

MARC RACICOT
GOVERNOR

STATE CAPITOL
HELENA, MONTANA 59620-0801

March 20, 1998

Honorable Linda Morgan
Chairman
Surface Transportation Board
1925 K Street NW
Washington, D.C. 20423-001

Re: Finance Docket
FD 30186 Sub No. 3
Tongue River Railroad

Dear Chairman Morgan:

This letter of support is submitted on behalf of the Tongue River Railroad Company's application for the Western Alignment. The Tongue River Railroad project has been the subject of in-depth study and evaluation by the Governor's Office. In September of 1995, after a thorough and careful review of all aspects of the project, I advised related parties that I supported approval of the Tongue River Railroad project. This position was subsequently made part of the record with the predecessor to the Surface Transportation Board. I believe the Tongue River Railroad is an important and vital link to ensure a strong, competitive and growing coal industry in Montana.

This rail line not only provides transportation advantages and efficiencies for existing coal production, but the system will allow us to further access and develop the preferred "super compliant" coal (high BTU value, low sulfur content) reserves of southeastern Montana. No doubt influenced by Phase II of the Clean Air Act Amendments, as well as the forces of utility de-regulation, the market place is presenting a unique opportunity for Montana. The demands of the market place, driven by the mandates of our national clean air policies and utility deregulation are working to define a very important role and opportunity for Montana and its coal reserves in the years ahead. It is apparent however, for Montana to meet these demands, a vital and efficient transportation system must be in place and operational by the year 2001.

TELEPHONE: (406) 444-3111 FAX: (406) 444-5529

Accordingly, I am pleased the Surface Transportation Board has chosen to approve the application of the Tongue River Railroad. This decision recognizes the need and opportunity before us and it is the first critical step in a process that must be both deliberate and expeditious.

I do nevertheless wish to express a serious concern over the selection of the Four Mile Creek segment as the approved route of the Tongue River Railroad. I am concerned the Four Mile Creek alignment will hinder the construction of this rail line and prevent it from being advanced in a timely fashion. I am here to strongly support the new Western Alignment alternative as it appears to avoid various environmental issues that have been raised by public comment and the agencies involved in reviewing the project, including our own Montana Department of Fish, Wildlife, and Parks.

I urge the Board to seriously consider the merits of the proposed application for the Western Alignment. In addition to being a safer, shorter route with a more favorable grade, the alternative alignment would restore the economic and operating efficiencies originally anticipated.

Again, we are operating within a very limited time frame in attempting to establish a transportation system that is vital to the future of Montana's coal industry. We are responding to a need and opportunity in the marketplace that may not come again, so it is important that we act in a prompt and prudent manner. I trust the Surface Transportation Board is cognizant of these matters.

Sincerely,

MARC RACICOT
Governor

CONRAD BURNS
MONTANA

DEPUTY WHIP

United States Senate

WASHINGTON, DC 20510-2603
(202) 224-2644

COMMITTEES:
APPROPRIATIONS
COMMERCE, SCIENCE, AND TRANSPORTATION
ENERGY AND NATURAL RESOURCES
SMALL BUSINESS
SPECIAL COMMITTEE ON AGING

April 6, 1998

Honorable Linda Morgan
Chairman
Surface Transportation Board
1925 K Street NW
Washington DC 20423-0001

Re: Tongue River Railroad F.D. 30186 (Sub. No. 3)
Western Alignment

Dear Madam Chairman:

I am writing to express strong support for the Tongue River Railroad Company's (TRRC) application for authority to construct the Western Alignment, a 17.3-mile rail line, from 23 miles south of Ashland Montana to a point near Spring Creek Junction, Montana. I understand that this is being proposed as an alternative to the Four Mile Creek Alternative previously approved by the Surface Transportation Board as the final 17 miles of the Ashland to Decker, Montana route.

As you know, rail transportation alternatives are few in Montana and transporting coal resources to market is no exception. As a member of the Senate Committees on Appropriations and Commerce, Science and Transportation it is my goal to ensure adequate rail transportation for my state's agriculture and natural resource industries.

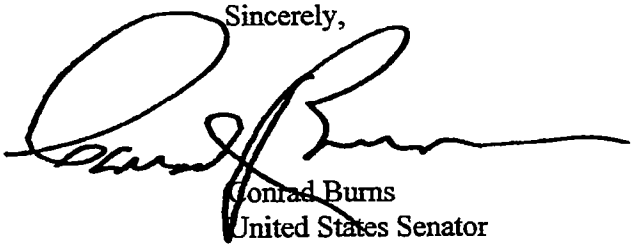
I am very aware of this rail project and the need for it. I filed a strong statement of support for the Ashland to Decker extension in 1992, and sent a letter of support for TRRC's reopening the prior docket in Summer, 1997 to approve the Western Alignment. I applaud the Board for approving the extension from Ashland to Decker in 1996, and believe approving the Western Alignment will allow the design and construction of a transportation line from Miles City Montana to Decker which will represent the state-of-the-art, emphasizing both efficiency and safety.

In addition my review of the Western Alignment indicates that the environmental concerns raised about the Four Mile Creek segment of the Ashland to Decker line have been addressed and alleviated. From a preliminary review, the mitigation plan proposed in the environmental report further ensures protection of Montana's natural resources.

I fully support the Western Alignment. I encourage you to seriously consider the merits of this segment enabling the construction of this Montana project to move forward promising an economic boost to Montana through increased tax revenue, job creation and revitalized coal industry.

I hope you will carefully review this application. In my opinion, both the need for this alignment and this project have been shown. I urge prompt and favorable consideration of this application.

Sincerely,



Conrad Burns
United States Senator

MAX BAUCUS
MONTANA

WASHINGTON, DC
(202) 224-2651

MONTANA TOLL FREE NUMBER
1-800-332-6106

INTERNET:
max@baucus.senate.gov
http://www.senate.gov/~baucus

United States Senate

WASHINGTON, DC 20510-2602

April 13, 1998

Ms. Linda Morgan
Chairman
Surface Transportation Board
1925 K Street N.W.
Washington, D.C. 20423

Dear Linda:

I am writing to express support for the current application submitted by the Tongue River Railroad Company for construction of the Western alignment. This alignment will replace their former application for the Four Mile Creek alternative and will be the final 17 miles of the Ashland to Decker, Montana line approved by the Surface Transportation Board in 1996.

On April 24, 1992, I submitted a letter of support for the first alternative. At this time, I am convinced that the Western Alignment will be more efficient and dependable. It is my understanding that the Western Alignment will adequately address the concerns raised by the Surface Transportation Board when approving the Four Mile Creek segment as an alternative to the applicant's 1992 preferred routing.

Montana is blessed with an abundance of high BTU super compliant coal. Because of the 1990 Clean Air Act Amendments, which I helped pass, there should be a strong demand for this coal if it can get to market. This railroad will provide that transportation and will help provide jobs and economic development to an area that really needs it.

Assuming that successful mitigation is implemented, approval of this construction application makes sense. This applicant has expended considerable effort to satisfy environmental and engineering concerns. I know that you will carefully scrutinize the application and demonstrated need.

If I can provide more information, please contact Brian Cavey in my Washington office at 202-224-2651.

Thank you for your consideration.

With best personal regards, I am

Sincerely,

Max Baucus

BILLINGS (406) 657-6790 | BOZEMAN (406) 586-6104 | BUTTE (406) 782-8700 | GREAT FALLS (406) 761-1574 | HELENA (406) 449-5480 | KALISPELL (406) 756-1150 | MISSOULA (406) 329-3123

Congress of the United States
House of Representatives

RICK HILL
FOR ALL MONTANA

April 15, 1998

Linda Morgan
Chairman
Surface Transportation Board
1925 K Street, NW
Washington, D.C. 20423

Dear Chairman Morgan:

I am writing concerning the Tongue River Railroad's application to your agency for approval to construct the Western Alignment, in lieu of the Four Mile Creek Alternative, in conjunction with the previously approved line from Miles City to Decker, MT.

I am pleased to recommend this alternative as preferable to the previously approved route. This project is vital to Montana, and the Tongue River Railroad needs authority to construct a route which can operate efficiently and safely. I have reviewed the 17+ mile Western Alignment route and believe that this segment will provide the operating and economic efficiencies envisioned by the original route, without the environmental concerns. During the application process and environmental review, I believe all parties will have an opportunity to examine this segment and provide comment. This review should result in approval of the Western Alignment.

During this session of Congress, I am serving as a member of the House Resources Committee. Energy policy is vital to a resource rich state such as mine; where we have the best coal resources still available to be mined as a block. Unfortunately, no transportation exists to deliver them to Upper Midwestern utilities who are committed to low sulfur, super compliance coal in order to meet Phase II requirements of the Clean Air Act Amendments of 1990.

I am pleased to join the other members of Montana's Congressional delegation in supporting the Tongue Rive Railroad in F.D. 30186(Sub. No. 3).

Sincerely,

Rick Hill

Rick Hill
Representative for all Montana

1037 LONGWORTH BLDG.
WASHINGTON, D.C. 20515
(202) 225-3211
(202) 225-5687 FAX

33 S. LAST CHANCE GULCH
ASPEN COURT BLDG., #2-C
HELENA, MT 59601
(406) 443-7878
(406) 449-3736 FAX

27 NORTH 27th STREET
BILLINGS, MT 59101
(406) 256-1019
(406) 256-3185 FAX

TOLL FREE LINE
1-800-949-6925
E-mail: rick.hill@mail.house.gov

APPENDIX C

APPENDIX C

VERIFIED STATEMENTS OF SHIPPERS

Gary E. Lapplander, Detroit Edison

James A. Small, Commonwealth Edison Company

Stephen D. Sherner, Minnesota Power & Light Company

Fred Shusterich, Midwest Energy Resources Company

Louis P. Matis, Northern States Power Company

BEFORE THE
SURFACE TRANSPORTATION BOARD

FINANCE DOCKET NO. 30186 (Sub-No. 3)

TONGUE RIVER RAILROAD COMPANY – RAIL CONSTRUCTION
AND OPERATION OF THE WESTERN ALIGNMENT

VERIFIED STATEMENT OF
GARY E. LAPPLANDER

My name is Gary E. Lapplander and I reside in Clinton Township, Michigan. My position is Manager of Fuel Supply at Detroit Edison. My business address is 2000 Second Avenue, Detroit, Michigan 48226. In my position at Detroit Edison, I am responsible for the selection, purchase and routing of coal fuel supply to our generating units. Detroit Edison annually purchases over 16 million tons of sub-bituminous coal from Montana and Wyoming. Detroit Edison owns 100% of the coal cars normally used in transporting coal to our utility plants.

Detroit Edison has strongly supported the Tongue River Railroad project for a number of years. On behalf of Detroit Edison, Norman H. Barthlow previously submitted verified statements dated April 29, 1992 and July 15, 1997 in Finance Docket No. 30186 (Sub-No. 2) in support of Tongue River's Ashland to Decker extension and Tongue River's Western Alignment, respectfully. I understand that Tongue River is proposing to construct the Western Alignment in lieu of the Four Mile Creek Alternative as the final 17 miles of the Ashland to Decker, Montana line approved by the Surface Transportation Board in 1996. Detroit Edison's support of the Tongue River's rail project continues, and my review of the Western Alignment leads me to conclude that it would be operationally more efficient and have less impact on the environment than the Four Mile Creek Alternative.

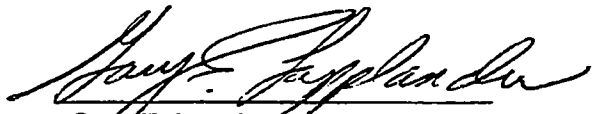
I have reviewed the Four Mile Creek Alignment contained in the Surface Transportation Board's decision served November 8, 1996. I am very concerned that the severe grades, extra distance and operating characteristics of this alignment will negate the transportation benefits offered by the Tongue River Railroad extension, which we have

supported since its filing in 1991. Detroit Edison owns its coal cars, and operating on the Four Mile Creek alignment poses serious difficulties from an operational and maintenance perspective.

I have reviewed the Western Alignment and strongly believe this alignment responds to any environmental concerns relating to Tongue River Railroad Company's preferred alignment in Finance Docket 30186 (Sub No. 2), and at the same time provides the operational and maintenance efficiencies for the movement of unit coal trains, something not contained in the Four Mile Creek alignment.

I urge the Board to carefully study this proposed new alignment and to approve the Western Alignment application in Finance Docket 30186 (Sub. No. 3). I am confident that the overwhelming superiority of the Western Alignment will become clear. The Board's timely consideration of this alignment is important to Detroit Edison's future strategic planning efforts.

This concludes my statement.



Gary E. Lapplander

VERIFICATION

State of Michigan
County of Wayne

Gary E. Lapplander, being duly sworn, deposes and says that he has read the foregoing statement, and that the contents thereof are true and correct to the best of his knowledge and belief.

Subscribed and sworn to before me this 14th day of April 1998.

Terrie A. Jones

Notary Public
My Commission Expires:

TERRIE A. JONES
Notary Public, Wayne County, MI
My Commission Expires Nov. 15, 2000

BEFORE THE
SURFACE TRANSPORTATION BOARD

FINANCE DOCKET NO. 30186 (Sub-No. 3)

TONGUE RIVER RAILROAD COMPANY—RAIL CONSTRUCTION
AND OPERATION OF THE WESTERN ALIGNMENT

VERIFIED STATEMENT OF
JAMES A. SMALL

My name is James A. Small and I reside in Naperville, Illinois. My position is Vice President at Commonwealth Edison Company, the electric utility serving Northern Illinois. I am offering this verified statement in support of the Tongue River Railroad Company's Application to construct and operate the "Western Alignment" in Finance Docket 30186 (Sub No. 3). I had previously submitted a vertified statement dated July 10, 1997 in Finance Docket No. 30186 (Sub-No. 2) on behalf of Commonwealth Edison in support of Tongue River's proposed Western Alignment. I understand that Tongue River is proposing to construct the Western Alignment in lieu of the Four Mile Creek Alternative as the final 17 miles of the Ashland to Decker, Montana line approved by the Surface Transportation Board in 1996. Commonwealth Edison continues to strongly support the approval by the Surface Transportation Board of the "Western Alignment".

Commonwealth Edison Company (ComEd), a wholly owned subsidiary of Unicom Corporation, is engaged principally in the production, purchase, transmission, distribution, and sale of electricity to both wholesale and retail customers. The geographical area in which ComEd provides retail service extends across one-fifth of the state of Illinois and includes the City of Chicago. ComEd serves about 3.4 million customers, representing 8 million people or approximately 70 percent of the state's population.

ComEd shipped 19.0 million tons of coal from western origins in 1997, including over 2.8 million tons mined in Montana. An economically viable Tongue River Railroad may add substantial quantities of cost competitive, environmentally desirable coal resources to ComEd's fuel supply options.

Based on information provided by representatives of the Tongue River Railroad Company, the Western Alignment proposed here will provide an economically and operationally better routing than the Four Mile Creek alternative approved in 1996 by the Surface Transportation Board.

In its Application in Finance Docket 30186 (Sub. No. 3), the Tongue River Railroad Company is proposing a new "Western Alignment" which is both operationally superior to the "Four Mile Creek Alternative", and raises fewer environmental concerns.

Commonwealth Edison truly believes the Western Alignment will serve ComEd's and its customers' interest. Therefore, ComEd supports the Tongue River Railroad Company's Application in Docket 30186 (Sub. No. 3) and selection of the "Western Alignment".

I, James A. Small, being first duly sworn, declare under penalty of perjury that the foregoing is true and correct. Further, I certify that I am qualified and authorized to file this verified statement.

Executed this 6 day of April, 1998.

James A Small
Name

BEFORE THE
SURFACE TRANSPORTATION BOARD

FINANCE DOCKET NO. 30186 (Sub-No.3)

TONGUE RIVER RAILROAD COMPANY–RAIL CONSTRUCTION
AND OPERATION OF THE WESTERN ALIGNMENT

VERIFIED STATEMENT OF
STEPHEN D. SHERNER

I, Stephen D. Sherner, being first duly sworn on oath, deposes and state that: I am an employee of Minnesota Power & Light Company, a diversified investor-owned public utility with corporate offices at 30 West Superior Street, Duluth, Minnesota. Since 1995, I have held the following positions with divisions or subsidiaries of Minnesota Power: Vice President - Power Sourcing and Delivery; Vice President - Marketing and Delivery; Vice President - Marketing and Customer Service; Senior Vice President - Minnesota Power Electric; President - MP Enterprises; and CEO -MPEX.

I previously submitted a verified statement dated July 14, 1997 in Finance Docket No. 30186 (Sub-No. 2) in support of Tongue River's proposed Western Alignment. I understand that Tongue River is proposing to construct the Western Alignment in lieu of the Four Mile Creek Alternative as the final 17 miles of the Ashland to Decker, Montana line approved by the Surface Transportation Board in 1996.

I submit this verified statement in support of the Tongue River Railroad Company's (TRRC) application to construct and operate the Western Alignment in Docket 30186 (Sub No. 3). Minnesota Power Electric, a division of Minnesota Power & Light Company (MPE) continues to strongly support approval by the Surface Transportation Board of the "Western Alignment."

In support of this position, I submit the following for consideration:

1. MPE is an electric utility serving 138,000 customers in Northern Minnesota. MPE has two coal fired generating facilities that burn approximately four million tons per year of Montana coal. The geographical location of MPE facilities favors the use of Montana coal. Therefore, MPE has an interest in supporting the development of new competitive sources of coal in Montana. MPE believes the Tongue River Railroad is the key to the development of new competitive sources in Montana.

2. MPE has reviewed the Western Alignment proposal developed by the Tongue River Railroad Company as an alternative to the Four Mile Creek Alignment as well as the Four Mile Creek

Alignment described in the Surface Transportation Board decision in Finance Docket 30186 (Sub No. 2) served November 8, 1996. MPE believes that the Western Alignment proposal is operationally superior and less expensive to build and operate than the Four Mile Creek Alternative.

3. Approval of the Western Alignment application is in the best interests of MPE's ratepayers. The Western Alignment assures TRRC's ability to access low sulfur, high Btu coal and to establish a new competitive fuel source that may be burned in Ape's generating stations.

For the reasons stated above, MPE supports TRRC's Application Docket No. 30186 (Sub No. 3) for authority to construct and operate the "Western Alignment."

Executed this 7 day of ~~March~~ Apr. 1, 1998.

Stephen D. Sherner

Subscribed and sworn to
before me this 7 day of
April, 1998.

Kristie J. Lindstrom
Notary Public

KRISTIE J. LINDSTROM
NOTARY PUBLIC-MINNESOTA
ST. LOUIS COUNTY
My Comm. Expires Jan. 31, 2000

Superior Midwest Energy Terminal
P.O. Box 787, West Winter Street, Superior, WI 54880
Tel: 715.392.9807 Fax: 715.392.9137

Midwest Energy Resources

BEFORE THE
SURFACE TRANSPORTATION BOARD

FINANCE DOCKET NO. 30186 (Sub-No.3)

TONGUE RIVER RAILROAD COMPANY - RAIL CONSTRUCTION
AND OPERATION OF THE WESTERN ALIGNMENT

VERIFIED STATEMENT OF
Fred Shusterich

My name is Fred Shusterich and I reside in Duluth, Minnesota. My position is President at Midwest Energy Resources Company located in Superior, Wisconsin. I am offering this verified statement in support of the Tongue River Railroad Company's Application to construct and operate over the "Western Alignment" because it will provide shippers of sub-bituminous, low sulfur coal with the most efficient route from Montana to our dock. On behalf of Midwest Energy Resources Company, John Ethen previously submitted verified statements dated April 29, 1992 and July 10, 1997 in Finance Docket No. 30186 (Sub-No. 2) in support of Tongue River's Ashland to Decker extension generally, and Tongue River's proposed Western Alignment specifically. I understand that Tongue River is proposing to construct the Western Alignment in lieu of the Four Mile Creek Alternative as the final 17 miles of the Ashland to Decker, Montana line approved by the Surface Transportation Board in 1996. Midwest Energy's support of Tongue River's rail project continues.

I firmly support the Tongue River Railroad Company's application to replace the "Four Mile Creek Alternative" with the "Western Alternative" route. As a major western coal transporter (16 million tons per year), we feel the routing will provide the most favorable operating characteristics which will in turn support reducing the cost of electricity to the many

residential and commercial customers served by our electric utility customers.

I, Fred Shusterich, being first duly sworn, declare under penalty of perjury that the foregoing is true and correct. Further, I certify that I am qualified and authorized to file this verified statement.

Executed this 8 day of April, 1998.

Fred Shusterich

Subscribed and sworn to before me
This 8 day of April, 1998.

Cindy Kennessey
Notary Public
7-18-99

BEFORE THE
SURFACE TRANSPORTATION BOARD

FINANCE DOCKET NO. 30186 (Sub-No. 3)

TONGUE RIVER RAILROAD COMPANY - RAIL CONSTRUCTION
AND OPERATION OF THE WESTERN ALIGNMENT

VERIFIED STATEMENT OF
LOUIS P. MATIS

My name is Louis P. Matis, General Manager Combustion and Hydro Plants for Northern States Power Company, Minneapolis, Minnesota. I am offering this verified statement in support of the Tongue River Railroad Company's (TRRC) Application to construct and operate by the Western Alignment rail line in Docket 30186 (Sub-No. 3). I previously submitted a verified statement dated July 15, 1997 in Finance Docket No. 30186 (Sub-No. 2) on behalf of Northern States Power to support Tongue River's Western Alignment proposal. I understand that TRRC is proposing to construct the Western Alignment in lieu of the Four Mile Creek Alternative as the final 17 miles of the Ashland to Decker, Montana line approved by the Surface Transportation Board in 1996. Northern States Power Company still is very supportive of the Western Alignment and urges the Surface Transportation Board to approve TRRC's application.

Northern States Power Company (NSP) is a combined Electricity and natural Gas Utility that serves 1.5 million customers in Minnesota, Wisconsin, North and South Dakota and northern Michigan. NSP's coal fired generating plants consume approximately 12,000,000 tons of coal per year. Over 4,000,000 tons of NSP's total annual coal burn originates at mines located in Montana.

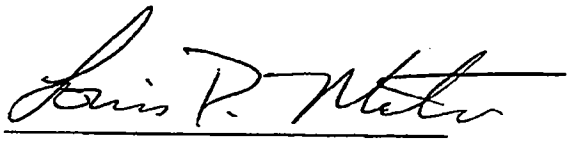
In addition to the coal and transportation services purchased each year for the generation of electricity, NSP leases and operates a fleet of 1,050 coal cars.

We have followed the Tongue River Railroad (TRRC) proceedings for several years and are interested in the potential for improved rail transportation efficiencies and associated rate reductions for the delivery of coal to NSP destinations. We are also interested in the potential for improved utilization of NSP's coal cars over shorter transportation routes such as routes involving and proposed by the TRRC.

Based on information provided by the Tongue River Railroad Company we support TRRC's application to construct and operate the "Western Alignment." We believe that the Western Alignment is operationally superior and more cost effective than the Four Mile Creek Alternative approved by the Board. Accordingly, NSP believes that approval of the Western Alignment is in the best interest of its ratepayers because this route will ensure our continued access to competitively priced, low sulfur, high BTU Montana coal.

I, Louis P. Matis, being first duly sworn, declare under penalty of perjury that the foregoing is true and correct. F/further, I certify that I am qualified and authorized to file this verified statement.

Executed this 13th day of April, 1998.



APPENDIX D

MONTANA TAXPAYERS *Association*

506 NORTH LAMBORN - HELENA, MONTANA 59601

SINCE 1921 MONTAX

CHASE T. HIBBARD, *Chairman*
DENNIS M. BURR, *President*

P. O. BOX 4909, HELENA MT 59604 (406) 442-2130 FAX (406) 442-1230

BEFORE THE
SURFACE TRANSPORTATION BOARD

FINANCE DOCKET NO. 30186 (Sub-No.3)

TONGUE RIVER RAILROAD COMPANY-RAIL CONSTRUCTION
AND OPERATION OF THE WESTERN ALIGNMENT

VERIFIED STATEMENT OF
DENNIS M. BURR

My name is Dennis M. Burr and I reside in Clancy, Montana. I am President of the Montana Taxpayers Association, a non-profit, membership organization of businesses and individuals promoting a balanced state and local tax and expenditure system in our State.

I encourage the Surface Transportation Board to approve the Tongue River Railroad Company's application for approval to construct the "Western Alignment" in Finance Docket No. 30186 (Sub-No. 3).

I recently conducted an analysis of the expected tax impacts of the Tongue River Railroad, assuming the Western Alignment as the final routing. This analysis and report was submitted to the Tongue River Railroad Company in January of 1998. The construction and operation of the Tongue River Railroad is of great importance both to local governments in eastern Montana and to our State government. Montana is dependent on property taxes to fund local governments and public schools to a greater extent than most states. The Tongue River Railroad represents a tremendous investment in Montana's property tax base and will also facilitate increased coal production, further expanding our state's economic development.

The tax and economic benefits of the Tongue River Railroad will be significant to Montana regardless of whether the final route is the Western Alignment or the previously approved Four Mile Creek Alternative. Officials of the Tongue River Railroad have convinced me that the Western Alignment is a better route for Montana. First, it is considerably shorter, causing less disturbance to existing landowners and it should reduce environmental issues and concerns. Second, it provides, not only a shorter route but a lesser grade contributing to lower and more efficient operating costs. These conditions should contribute to a safer and longer lasting operation of the railroad. Although the Western Alignment is costlier to construct, it appears to me to be in the long run best interest of both the railroad and the State of Montana. I therefore support the Tongue River Railroad Company's application in Finance Docket No. 30186 (Sub.-No. 3) for approval of the Western Alignment.

I, Dennis M. Burr, being duly sworn, declare under penalty of perjury that the foregoing is true and correct. Further, I certify that I am qualified and authorized to file this verified statement.

Executed this 22nd day of April, 1998

Dennis M. Burr
President, Montana Taxpayers Association