

**OFFICE OF THE GOVERNOR**

STATE OF MONTANA

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November 16, 2004

Surface Transportation Board  
Case Control Unit  
Washington, DC 20423-0001  
Attn: Kenneth Blodgett

RE: STB Docket No. FD 30186 (Sub-No. 3)

Dear Mr. Blodgett:

The purpose of this letter is to express my support for the Surface Transportation Board ("Board") to approve the Tongue River Railroad Company, Inc. ("TRRC") application in the proceeding entitled Tongue River Railroad Company, Inc.— Construction and Operation – Western Alignment, STB Finance Docket 30186 (Sub-No. 3). The Board issued a Draft Supplemental Environmental Impact Statement ("Draft SEIS") on October 15, 2004 addressing the environmental impact and mitigation measures associated with the construction and operation of the TRRC's proposed 17.3 mile Western Alignment located in southern Rosebud County and portions of Big Horn County, Montana.

The TRRC proposed Western Alignment provides the most efficient and economic means of providing transportation to the coal assets located in southeastern Montana near the community of Ashland, Montana as well as to the surface coal mines in the Decker, MT area. In April 2002, pursuant to the Crown Butte Exchange legislation, the Federal government transferred to the State of Montana the mineral ownership to 533 million tons of economic coal beneath Otter Creek Tracts 1, 2 and 3. In addition, the State of Montana owns 100 million tons of coal beneath State School Trust lands within the Otter Creek Tracts. Approximately 4.5 billion tons of coal lies in the vicinity of the Ashland, Montana including Otter Creek, the Tongue River drainage, and the Northern Cheyenne Reservation. The three Otter Creek Tracts alone contain approximately 1.2 billion tons of low sulfur, high quality coal reserves.

During the 2003 Montana legislative session, the State of Montana passed legislation to fund development drilling, coal quality analysis and cultural surveys. The State has worked with Native Americans and southeastern Montana communities to provide employment opportunities related to development of the Otter Creek coal assets. Timely development of these coal assets will reverse the trend of declining coal severance tax revenues to the State, provide new sources of funding for K through 12 education, and create new economic opportunities for southeastern Montana communities. The transportation provided by the

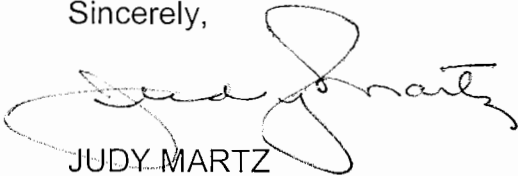
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currently permitted Tongue River Railroad along with the approval of the proposed Western Alignment is essential to ensuring the State of Montana recognizes the value of its coal assets contemplated by the Crown Butte legislation and transfer of the Otter Creek Tracts.

I want to reiterate Montana's continued support for the Tongue River Railroad project and the Western Alignment application. The Western Alignment presents the best balance between meeting environmental requirements and providing the most efficient, economic, reliable and safe operating rail alignment. I urge the Board's timely action on the application in Finance Docket No. 30186 (Sub-No. 3) to ensure Montana's ability to encourage the development of its coal resources in southeastern Montana. It is essential that Montana is able to attract the private sector development expertise and funding in order for the State to enjoy the economic benefits for its citizens and our educational system.

As the Governor of Montana, I urge your approval of the Western Alignment and I trust the Board can reach an expedited decision in accordance with your regulatory procedures.

Sincerely,



JUDY MARTZ  
Governor