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June 18, 2003

VIA FEDERAL EXPRESS

Mr. Vernon A. Williams
Secretary
Surface Transportation Board
1925 K Street, N.W., Room 700
Washington, DC 20006



DME-21

Re: **Finance Docket No. 34178 -208122**
Dakota, Minnesota & Eastern Railroad Corporation
and Cedar American Rail Holdings, Inc. -- Control --
Iowa, Chicago & Eastern Railroad Corporation

Finance Docket No. 34178 (Sub-No. 1) -208124
Dakota, Minnesota & Eastern Railroad Corporation --
Terminal Trackage Rights -- Union Pacific Railroad Company

Dear Secretary Williams:

Attached for the Board's reference in the above-captioned proceedings is a letter dated June 17, 2003 from Kevin V. Schieffer, President and Chief Executive Officer of Dakota, Minnesota & Eastern Railroad Corporation, to John H. Rebensdorf, Vice President - Network and Service Planning for Union Pacific Railroad Company. The attached letter responds to Mr. Rebensdorf's letter of June 16, 2003, a copy of which UP filed with the Board that day.

Ten copies of this letter, with attachment, are enclosed for filing at the Board. One extra copy also is enclosed; please date-stamp that copy to show receipt of this filing and return it to me in the provided envelope. Thank you for your assistance on this matter.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read 'T. Litwiler'.

Thomas J. Litwiler
Attorney for Dakota, Minnesota & Eastern
Railroad Corporation

TJL:tl
Attachment

cc: Michael L. Rosenthal, Esq. (via Federal Express)
Parties of record



Kevin V. Schieffer
President & Chief Executive Officer

17 June 2003

VIA FACSIMILE (402-271-3987)

Mr. John Rebensdorf
V-P Network & Service Planning
Union Pacific Railroad
Union Pacific Bldg.
1416 Dodge Street
Omaha, NE 68179

Dear John:

I received your letter of yesterday advising of your desire to terminate the Overhead Trackage Rights Agreement (OTRA) unless we comply with your demands within 24 hours. We respectfully disagree that UP has any right to terminate this critical agreement. To allow that would seriously undermine our current customer operations and our future growth opportunities, important not only to DM&E and its affiliates but to the hundreds of customers we serve. There is no legal basis for UP's attempt to so restrict competition from our railroad.

There are many customers that rely on this operation, and we are committed to providing the best service possible for them. Under the 1986 Agreements, DM&E agreed to numerous operational limitations. We have always complied with those limitations, and continue to do so today.

We did not, however, agree to be forego fair and legitimate growth and service improvement opportunities for our customers, or otherwise artificially limit our operations at the pleasure of UP. We have the right to grow our own business and acquire other property, which was not restricted by the OTRA. The OTRA expressly authorizes us to bridge traffic at Owatonna, which we are doing consistent with the OTRA.

Section 8.1 of the OTRA makes clear that UP has no right of termination unless DM&E "fails to comply with any of the covenants required of it, *and* if such default or failure shall continue for a period of ninety (90) days after [UP] shall have given notice" of such failure, allowing a reasonable opportunity to cure. Notwithstanding repeated requests from DM&E (DM&E letters of March 21, March 31 and April 15), UP has been unable to cite any "failure" on the part of DM&E to comply with any identified provision of the OTRA (UP letters of March 25 and April 14). Your March 19 notice cited no

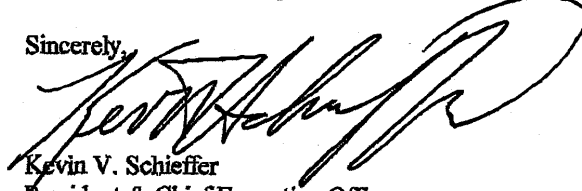
17 June 2003
Mr. John Rebensdorf
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section or covenant that was violated. It did generically state that a "bridge move" would constitute a failure to conform and comply with the agreement – but gave no basis for such a blatantly inaccurate statement. UP's lack of explanation is particularly unreasonable given the clear language of Section 1.1 of the OTRA which explicitly states that DM&E may use the track for "bridging Lessees trains, engines and cars." Based on the record to date, UP began this dispute by making unsupportable allegations of abuse and violations of the STB process. It seems to have shifted its position by now suggesting that its allegations as to STB process have transformed themselves into contract violations.

DM&E is not in violation of the Agreement. UP has no right to terminate it. It is our view that the OTRA is in effect and will remain in effect after your alleged midnight termination. Interference with DM&E's operations at Owatonna would result in serious damages to DM&E and affiliate rail operations, and to our respective customers and the shipping public. The OTRA is critical to the successful operation DM&E and its affiliates, and is an integral part of our operation. With respect, it is our view that UP's claimed termination is without basis and not permitted under the OTRA. I find nothing in your letters that constitutes a legitimate termination of our rights. We will continue operations under the authority of the OTRA, which authority we have paid for and the rights to which are critical to our operations.

John, I remain hopeful that we will be able to resolve this matter without further damage to an important relationship. But we will defend our rights vigorously. It is hard to understand UP's position in this matter. DM&E is not threatening UP rights. We would like to work with you generating mutual traffic opportunities rather than being subjected to indefensible UP requirements that we seek your permission for the privilege of developing our own. We are committed to honoring our contractual requirements. Unlike UP, we have done that throughout the 17 years since the 1986 Agreements have been in effect, and we will do so in the future. But we are not willing to apply an irrational reading to those requirements at the expense of competition, customer service, or our own rights to grow. We stand ready to address any legitimate UP claim or notice.

Sincerely,



Kevin V. Schieffer
President & Chief Executive Officer

KVS/cj (kvs/wordjrebensdorf 17 June 2003)