

**BEFORE THE
SURFACE TRANSPORTATION BOARD
Washington, DC 20423**

In the Matter of:

**RAIL CAPACITY AND INFRASTRUCTURE
REQUIREMENTS**

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) **STB Ex Parte No. 671**
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**WRITTEN SUBMISSION OF
ARKANSAS ELECTRIC COOPERATIVE CORPORATION**

I. INTRODUCTION

Pursuant to the Board's notice dated March 6, 2007, this document contains the comments of Arkansas Electric Cooperative Corporation (AECC) regarding rail capacity and infrastructure requirements. At the public hearing scheduled for April 11, 2007, AECC's views will be presented by Gary Voigt. Mr. Voigt is the President and Chief Executive Officer of AECC.

AECC is a membership-based generation and transmission cooperative that provides wholesale electric power to electric cooperatives, which in turn serve approximately 460,000 customers located in each of the 75 counties in Arkansas. In order to serve its member distribution cooperatives, AECC has entered into arrangements with other utilities within the state to share generation and transmission facilities. The largest of AECC's generation assets are its ownership interests in the White Bluff plant at Redfield, AR and the Independence plant at Newark, AR, each of which typically burns in excess of 6 million tons of Powder River Basin (PRB) coal annually. AECC holds a 35 percent interest in each of these plants (for which Entergy is the operator and majority owner). In addition, AECC holds a 50 percent interest (with

AEP) in the Flint Creek plant, which is located in Gentry, AR. This plant normally burns in excess of 2 million tons of PRB coal annually. Specific forecasts of our coal transportation needs are provided to the railroads under the National Coal Transportation Association's forecast protocol.

As a result of the large volume of coal used by these plants and the dependency of that coal on long-distance rail transportation, AECC has a direct interest in issues related to rail capacity and infrastructure investment. This interest has been heightened by AECC's repeated experiences with rail delivery shortfalls and the resulting imposition of coal burn restrictions at our plants.

II. RAIL CAPACITY AND INFRASTRUCTURE ISSUES

In considering issues regarding the adequacy of rail capacity and infrastructure investments, the Board is at a crossroads in the evolution of the marketplace for rail transportation. The regulatory standards and precedents that define the "ground rules" for railroad competition were developed at a time when the railroads were assumed to have excess capacity and the ability to handle volume increases at comparatively low incremental costs ("economies of scale"). However, rail carriers increasingly have been asserting that excess capacity and economies of scale no longer exist, so that the Board and rail shippers should expect rates to increase as increasing volumes encounter capacity constraints. As a result of these purportedly changed circumstances, the Board will need to assess the extent to which the foundation for its regulatory practices has been altered, and, prospectively, the need for corresponding modifications in the "ground rules" for railroad competition.¹

¹ A detailed discussion of economic issues related to excess capacity and economies of scale was presented in STB Ex Parte No. 646 (Sub-No. 1), *Simplified Standards for Rail Rate Cases*, Supplemental Comments of Arkansas Electric Cooperative Corporation at pp. 3-5 (Feb. 26, 2007).

Given the potential significance of such changes, it is appropriate and commendable that the Board has sought input from affected parties. The Board's order dated March 6 specifically requested that interested persons "...provide views and information about:

- freight traffic forecasts;
- the extent of the capacity constraints and the ability of the railroads to meet the rising demand;
- the infrastructure investment needed to ensure that the Nation's freight rail system continues to operate in an efficient and reliable manner;
- possible solutions to the challenges presented by growing rail traffic and limited capacity; and,
- the potential role of public-private partnerships and innovative financing tools in meeting these challenges."

Each of these is addressed in detail below.

A. Traffic Forecasts

The movement of PRB coal out of Wyoming is understood to be the largest single commodity flow handled by the U.S. rail network. On a ton-mile basis, this flow alone is comparable to the entire combined traffic volumes of both eastern Class I railroads. It has also been one of the fastest-growing segments of rail traffic. During the 10-year period preceding the Joint Line throughput problems of 2005, Wyoming PRB coal output grew at an average rate of nearly 5 percent per year.

The Board has recognized the forecasts of PRB coal volumes developed by the U.S. Department of Energy/Energy Information Administration (DOE/EIA) as being authoritative and

reliable.² According to DOE/EIA, Wyoming PRB coal volume is projected to grow at an average annual rate of approximately 1.8 percent per year for the next 10 years.³ Based on this forecast, it can reasonably be concluded that growth in Wyoming PRB coal volume will not necessitate any sudden, dramatic or even substantial changes in rail capacity and infrastructure for the foreseeable future. Rather, expected volume growth is quite modest, particularly in comparison with past experience.

B. Extent of Capacity Constraints and Ability to Meet Rising Demand

Over the years, Union Pacific Railroad (UP) and BNSF Railway (BNSF) have planned and managed the growth of the Joint Line and other facilities required for PRB coal movement. As explained in further detail in a recent joint press release (attached as Exhibit 1), UP and BNSF in the past have made the rail infrastructure investments needed to enable coal production from the Joint Line to increase from 19 million tons in 1985 to 325 million tons in 2005. Comments from UP and BNSF senior management underscore the importance of these infrastructure investments to both railroads. Moreover, the railroads announced plans to construct more "...main line capacity to meet the annual projected growth in demand for SPRB coal in 2007 through 2009". As a result of this ongoing, long-established practice of matching infrastructure investments to approximate volume conditions, the facilities that currently are in place (or already programmed for implementation) are sized for the approximate volume level expected to prevail for at least the next few years.⁴

² As described in further detail in Chapter 4 of the Supplemental Environmental Impact Statement issued by the Board in Finance Docket No. 33407 (issued in December 2005), information from the DOE/EIA modeling system has been used in several Board proceedings, and is the foundation for the congressionally-mandated *Annual Energy Outlook* published by DOE.

³ Source: DOE/EIA, *Annual Energy Outlook 2007*, Table 112 "Coal Production by Region and Type" (Feb. 2007).

⁴ If the proposal advanced by the Dakota, Minnesota and Eastern Railroad (DME) to create a new rail access to the PRB is able to achieve commitments for needed funding, available capacity for moving PRB coal would be further increased.

It must be noted that the railroads' investment practices have not always ensured the sufficiency of capacity for specific time periods. For example, even before the Joint Line infrastructure problems that began in May 2005, AECC's plants were experiencing shortfalls in PRB coal delivery. In observing the overall correspondence between PRB infrastructure investment and volume levels, AECC does not endorse the low margin between capacity and expected traffic volumes that the railroads have chosen to maintain. As a result of such low margins, service levels have tended to fluctuate substantially in response to short-term changes in volume and other factors.

The small percentage volume growth that is now projected for PRB coal is comparable, on an order-of-magnitude basis, to the productivity improvements that the railroads are routinely able to achieve. In its computation of RCAF (Adjusted) and RCAF-5, for example, the Board is currently using productivity change estimates of 1.7% and 1.9% per year, respectively.⁵ While these estimates do not specifically relate to unit coal train movements, railroads have a long history of developing and implementing productivity improvements. Toward that end, there are several ongoing productivity initiatives that have the effect of increasing unit train throughput capability without materially changing network infrastructure. For example:

- UP and BNSF have actively been seeking and achieving increases in average train length and in average net weight per car;⁶

⁵ Source: STB Ex Parte No. 290 (Sub-No. 5), *Quarterly Rail Cost Adjustment Factor*, (served Mar. 20, 2007).

⁶ For example, UP's "Factbook" for 2005 described how UP was able to achieve a 2 percent increase in average net weight per car between 2004 and 2005. This enabled UP to move 2 percent more volume in 2005 even though it moved the same number of carloads as it did in 2004. See <http://www.up.com/investors/attachments/factbooks/2005/markets.pdf>.

- The implementation of electronically-controlled pneumatic (ECP) brakes should enable increased operations at normal speeds, decreasing transit times and increasing the effective throughput capacity of line segments over which it is used;⁷ and,
- The implementation of positive train control (PTC) should create opportunities for more efficient management of train movements. For example, PTC can be used to support train “pacing” (i.e., real-time speed adjustments) to ensure trains meet and pass with minimal time loss. Again, decreasing transit times would increase effective throughput capacity.

These examples confirm that capacity improvements are ongoing, and further illustrate how innovations that increase efficiency also tend to increase throughput capacity, and pay for themselves through operating cost savings.

It is essential to note that many capacity (and productivity) improvements rest directly on participation by and financial support from shippers. Use of ECP brakes entails changes in the braking equipment on railcars, which for PRB coal movements typically are supplied by shippers. Likewise, achievement of higher average net weight per car may be achieved through shipper substitution of aluminum railcars for steel railcars. Increased average train lengths may be achieved through investments by individual shippers in improved unloading facilities. PRB coal shippers, including AECC in cooperation with the co-owners of its plants, have a long history of direct participation in the supply of railcars and unloading facilities that has demonstrably enhanced and will continue to enhance rail throughput capacity for this traffic.

⁷ A recent joint news release by BNSF and Norfolk Southern described new field testing of this innovative technology, and explicitly cited its potential ability to improve network capacity. See <http://www.bnsf.com/media/news/articles/2007/03/2007-03-29a.html>.

Overall, as long as there is sufficient competition, there appears to be no logical or economic basis for concerns regarding the ability of the rail network to accommodate projected growth in PRB coal volume. In the post-Staggers Act competitive environment, the railroads routinely have been able and willing to make infrastructure investments tailored – at least loosely - to projected volume levels. Based on the infrastructure commitments already made, the economic benefits to railroads of investments to further improve productivity (and capacity), and the demonstrated willingness of shippers to make complementary financial commitments, there is no obvious reason to expect any infrastructure inadequacies associated with PRB coal volume growth for the foreseeable future as long as there is adequate competition.

C. Needed Infrastructure Investment

As described above, few if any further infrastructure investments beyond those already announced should be needed to accommodate expected growth in PRB coal volume. To the extent that robust future traffic growth is going to outdistance the capabilities of existing infrastructure, it is almost certain to be growth associated with traffic other than PRB coal. If investment is needed in intermodal terminals, classification yards or other facilities used by traffic other than PRB coal, the railroads and the Board should ensure that such traffic is paying its own way. Any cross-subsidy of such traffic and the facilities it requires would plainly violate the cross-subsidy principles articulated by the Board in the PPL and Otter Tail rate reasonableness cases.

D. Possible Solutions to Capacity Challenges

The Board should maintain an expectation that the infrastructure investment process will continue to work as it has for most of the past 26+ years. The railroads, by their own claims, have “...spent more than \$370 billion...on capital expenditures and maintenance expenses

related to infrastructure and equipment” between 1980 and 2006.⁸ As volumes shift and technologies change, new opportunities will arise for meritorious investments that will further improve productivity and capacity. As long as railroads compete with no less vigor than they did for most of the past quarter-century, there is no reason to anticipate that rail management will fail to pursue meritorious changes in infrastructure, or that shippers will become less willing to make complementary investments in rolling stock, unloading facilities, etc. In general, the Board should expect that competitive market forces will be the most effective tool to foster an efficient level of capacity and infrastructure investment.⁹

If the Board concludes that existing market forces are insufficient to produce needed capacity or prevent systematic increases in the exercise of rail market power, there are several potential remedial actions available to the Board, including the following:

1. Streamline the processing of construction applications. A portion of needed new capacity may come from construction of new rail lines. Such projects are driven largely by volume and revenue considerations. To the extent that volume growth occurs, it may lead to more construction applications.

In December 1998, the Board approved the transportation aspects of the PRB access project that had been proposed in February 1998 by DME. The December 1998 approval relied to a significant degree on the proposition that DME should not be denied “...the opportunity to take its proposal to the financial markets.”¹⁰ Despite the fact that the Board’s environmental review process began “(s)hortly after the application was

⁸ See <http://www.aar.org/PubCommon/Documents/AboutTheIndustry/Overview.pdf>.

⁹ As discussed above, railroad arguments that they should be given increased latitude to exercise market power are based on “voodoo economics” and would be bad public policy.

¹⁰ Finance Docket No 33407, *Dakota, Minnesota & Eastern Railroad Corporation Construction into the Powder River Basin*, at p. 44 (served Dec. 10, 1998).

filed” (i.e., February 1998), the Board’s original final approval of the project was not granted until January 2002. After conducting further analyses necessitated by a subsequent court remand, the Board did not re-issue its final approval until February 2006. While a portion of the total delay might reasonably be ascribed to complications posed by DME’s subsequent control of IMRL, most of the delay arose in one way or another from the environmental review process.

To the extent feasible, the Board should streamline the environmental portion of the approval process for construction projects. For example, without compromising any of the protections afforded by environmental statutes, the Board might usefully be able to clarify the criteria it applies in its analyses of environmental mitigation needs. This could enable project designers and engineers to better incorporate consideration of environmental issues and mitigation at the outset, potentially reducing the scope and burden of the environmental process.

2. Implement new criteria that support investment. The Board has already taken some steps that appear to be supportive of new infrastructure and improved capacity. For example, the Board’s decision served February 12, 2007 in Finance Docket No. 34421 (the “Holrail” buildout case) may facilitate new construction in places where buildouts are difficult. Such new construction will yield capacity benefits both by adding line segments to the network and by letting market forces govern the flow of affected traffic over different carriers’ facilities. The extent to which such capacity benefits are achieved in practice will depend upon the Board’s eventual application of the criteria itemized in the February 12 decision.
3. Alter competitive access criteria to increase effective capacity. There are several avenues through which the effective capacity of existing facilities may be materially improved by

Board actions that would better allow market forces to act as the “Decider” of the facilities used by individual movements. For example, if UP lines from the PRB to some common point were becoming congested while BNSF had available capacity, letting the shipper procure the transportation it needs in segments (e.g., from the PRB to the common point and from the common point to the plant) would enable efficient use to be made of existing capacity. This would also forestall or avoid a need on the part of UP (in this example) to invest in capacity expansion.¹¹ Similarly, relaxation of terminal access and reciprocal switching standards would make it easier for market forces to shift traffic flows to carriers where capacity is most readily available. In general, a greater reliance on market forces should improve the throughput attainable from any given network infrastructure.

4. Withdrawals from the “railbank”. In situations where a party wishes to restore to active service a line that has been “railbanked”, the Board (and the Interstate Commerce Commission before it) has historically required the concurrence of the former owner of the line. However, if the Board concludes that competition is insufficient, leaving control of railbanked assets in the hands of carriers who are not competing vigorously would only serve to obstruct needed new entry and infrastructure investment. To accommodate interest in rail use that the former owner may have for the railbanked asset, the Board could establish a “reverse OFA” process that would enable the former owner to share in the cost and capacity associated with the restored asset. This would protect the legitimate interest of the former owner without unduly hindering new entry.

¹¹ This would require a change in the Board’s “bottleneck” criteria.

5. Facilitate/promote cooperative actions. The Board could take steps to facilitate or promote the types of cooperative actions that railroads long have used to increase throughput capacity without new construction. For example, coal trains moving to two of AECC's plants make use of directional operations over two of UP's parallel lines across Arkansas. This type of arrangement typically yields a much higher throughput capacity than two lines operated independently, and has been used in several settings outside Arkansas.¹² Section 10705 gives the Board broad authority to order through routes that could be used to foster directional operations, at least where warranted by capacity concerns or other relevant considerations and requested by an affected party.
6. Restore capacity lost in past mergers. Past rail mergers were often justified at least in part on savings associated with the elimination of unneeded capacity. In some cases, such "unneeded" capacity now may be needed to address capacity shortages. The Board has broad authority to reconsider past merger decisions in light of changed circumstances, and in numerous past merger decisions and oversight proceedings has indicated its preparedness to do so. If needed to address capacity and/or competitive issues, the Board should wield that authority to permit restoration of lost competition (including third competitors) in individual markets.

E. Innovative Financing Tools

There is at least one feature of the current rail marketplace that may have the effect of hindering appropriate infrastructure investment irrespective of potential future volume increases. Under the existing duopolies, the ability of one railroad to anticipate the competitive response of

¹² For example, over a distance of approximately 180 miles in Nevada, the former SP and WP lines between Wesco (near Winnemucca) and Alazon (near Wells) were historically used jointly. Eastbound trains of both railroads generally used the WP line, while westbound trains of both railroads generally used the SP line. Similarly, the CNW and Soo Line operated approximately 37 miles of their former trackage in the vicinity of Polo, MO as paired track.

the other may lead it to discount some of the benefits of infrastructure investments. For example, a railroad may have opportunities to construct a line segment to reach traffic served by the other carrier, or to make its own operations in an existing corridor more competitive. In evaluating such opportunities, the railroad may discount revenues from current levels to the levels that it expects will prevail after the likely competitive response of the other railroad. However, if the investment is not made, the affected shippers will not be in a position to realize the savings associated with the lower rate level. This creates natural opportunities for railroads to work with affected competitive shippers to jointly fund some types of infrastructure investments that otherwise would not be made.¹³

In AECC's experience, the railroads to date have not been particularly receptive to such joint ventures that involve PRB coal movements. If we're really moving into a world where the need for capacity exceeds railroad resources, the rail industry should reconsider the old adage that a "bad railroad" is better than a "good shipper". Our money is just as green as theirs, and we have a common interest in ensuring the availability of efficient operations on an appropriate physical plant.

Note Regarding Investment Tax Credits:

While it is necessary and proper for the Board to take decisive action against reductions in competition that hinder infrastructure investment and lead to higher rates, this does not mean that there is no basis for the type of investment tax credits that rail parties have discussed in public and are understood to be seeking. Many valid considerations could be cited in support of such credits, including:

¹³ The "Bayport" (San Jacinto) project in Texas, Finance Docket No. 34079, is an example of a railroad-shipper joint project.

- air quality benefits, greater fuel efficiency and increases in net available highway capacity (reducing highway congestion and/or obviating need for further public highway investment) associated with truck-to-rail diversions;
- reducing the frequency of incidents that disrupt rail commodity flows;
- balancing the inequity created by the application of a common carrier obligation on privately-financed rail assets; and
- the opportunity to couple investment tax credits with a requirement for competitive use of the lines and facilities to be constructed or improved with the application of such tax credits.

If they are to be implemented, investment tax credits should be based on such considerations, and not on the prospect of dire scenarios that assume anti-competitive reductions in investment and higher pricing in comparison with past experiences.

III. SUMMARY

Available evidence does not appear to substantiate concerns regarding volume growth, capacity constraints and unmet infrastructure needs, at least as such issues pertain to the transportation of PRB coal from Wyoming in a competitive environment. The volume of Wyoming PRB coal moved by rail has increased dramatically over the years, but its growth in the foreseeable future is expected to be quite modest. In light of current capacity and ongoing productivity enhancements, it would be unreasonable to ascribe any significant new infrastructure requirements to growth in Wyoming PRB coal volume.

To PRB coal users, the efforts by rail parties to assert the existence of capacity constraints look very much like an unwelcome sequel to the 2005 Joint Line throughput problems. In the original episode, when all of the spin and rhetoric was set aside, the bottom line was that the railroad(s) – apparently in response to pressures from the investment community for

short-term financial results - deferred routine maintenance that would have prevented problems caused by the well-known build-up of coal dust on the Joint Line roadbed.¹⁴ The resulting in-service failure of Joint Line produced massive adverse economic impacts off any scale of comparison with whatever the cost of a proper Joint Line maintenance program would have been.

While this event can only be viewed as a disaster from a public interest standpoint, it illustrates the underlying problem that the Board now faces. The investment community does not operate with a concern for the national transportation policy or the long-term health of the interstate rail network. It generates high pressure for short-term results, and eschews infrastructure investment to the greatest extent possible.

Indeed, even before the problems of 2005 occurred on the Joint Line, AECC and other coal shippers were becoming increasingly concerned that the railroads were systematically retreating from past levels of price competition.¹⁵ This was manifest in the early experiences of many shippers with the movement of the western railroads toward “public pricing” of PRB coal movements. In the aftermath of the Joint Line problems, the rationing of artificially scarce transportation capacity pushed market prices up even further.

The investment community may view underinvestment in capacity, congestion and resulting price increases as positive developments. However, this just illustrates the textbook

¹⁴ A copy of a letter sent by Mr. Voigt of AECC to former STB Chairman Nober regarding this issue is attached as Exhibit 2. While no reply was received from Chairman Nober, a response was eventually provided by BNSF. However, this response did not alter the basic conclusion that the throughput problems of 2005 resulted from insufficient maintenance, and not from any underlying deficiency in infrastructure investment (or, as initially claimed by the railroads, extraordinary weather conditions).

¹⁵ Economic theory clearly describes how the ardor of competition in a duopoly may diminish substantially over time as the duopolists gain familiarity with each other and learn how to engage in “cooperative” behavior that minimizes competition. See Samuelson, Paul and William Nordhaus, Economics, at pp. 186-187, Eighteenth Edition (McGraw-Hill; New York, 2005).

result that unchecked market power produces higher prices and lower capital investment than would prevail in the presence of healthy competition.

As the guardian of the public interest in rail matters, it is appropriate and necessary for the Board to use its authority to prevent this outcome. To operate the rail network in a manner that is consistent with the public interest, rail management needs to be able to make decisions based on a longer-term view. This can most effectively be achieved if the Board makes it clear that it will put long-term consequences into effect in response to reduced levels of competition that it may observe. Put another way, rail management and the financial community will likely think twice about holding back needed investment or jacking up rate markups over variable cost if it means the Board will unleash the forces of competition.

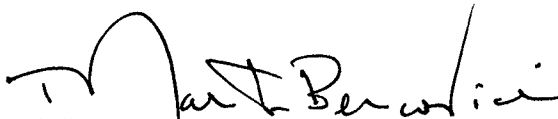
Overall, the Board should take a skeptical view of any claims or assertions that the rail industry is somehow unable to accommodate or adapt to further volume changes. When motivated by competitive pressures, the industry has a demonstrated ability to invest, innovate and improve in the face of changing circumstances. It also has a demonstrated ability to redeploy resources away from under-utilized assets (e.g., through abandonments or shortline spin-offs), and to rely on financial support from shippers for at least some types of needed infrastructure and equipment.

If the Board does conclude that the railroads are under-investing in needed facilities and/or increasing competitive rate levels, there are several specific actions it could and should undertake to stoke the fires of competition. Indeed, the Board can reasonably view future volume increases as a catalyst for the rail industry to reach the “promised land” where maximum reliance is placed on competitive market forces. It should not permit such increases to provide a cloak for anti-competitive conduct.

AECC appreciates this opportunity to participate in the Board's consideration of rail capacity and infrastructure issues.

Respectfully submitted,

Arkansas Electric Cooperative Corporation

A handwritten signature in black ink, appearing to read "Martin W. Bercovici", is written over a horizontal line.

Michael A. Nelson
131 North Street
Dalton, MA 01226
413-684-2044
mnelso6@berkshire.rr.com

Transportation Consultant

April 4, 2007

Martin W. Bercovici
Keller and Heckman LLP
1001 G Street, N.W., Suite 500W
Washington, DC 20001
202-434-4144
bercovici@khlaw.com

Attorney for Arkansas Electric Cooperative Corporation

Exhibit 1

UP, BNSF Announce Southern Powder River Basin Joint Line \$100 Million Capacity Expansion Plan

Omaha, Neb., and Fort Worth, Tex., May 8, 2006 – Union Pacific and BNSF Railway Company today announced plans to begin another significant capacity expansion on the jointly owned rail line serving the Southern Powder River Basin (SPRB) coal fields, the largest open-pit, low-sulfur coal reserves in North America.

Both railroads have agreed on preliminary work to construct more than 40 miles of third and fourth main line tracks, at a cost of about \$100 million over the next two years, to meet current and future forecasted demand for Wyoming's Powder River Basin (PRB) coal. This project is in addition to the construction of 14 miles of a third main line track completed in Spring 2005 and an additional 19 miles of the third main line currently under construction and scheduled to go into service later in May and be fully operational in September 2006. The total cost of this nearly 75-mile capacity expansion will be about \$200 million, which is split between the line's two owners, Union Pacific and BNSF.

"The investment in the Joint Line is a strategic part of Union Pacific's coal network operations," said Jim Young, president and chief executive officer, Union Pacific. "On-going infrastructure development improvements in the Southern Powder River Basin will enhance our ability to serve our customers and meet this nation's energy demands."

"This Joint Line project and the magnitude of our investment underscores BNSF's commitment to this country's coal and power industries," said Matthew K. Rose, BNSF's chairman, president and chief executive officer. "The rail, mining, and generating industries all need to work together to keep coal a strong part of the nation's future energy program."

For many years, CANAC, a Montreal-based rail engineering firm, has been evaluating PRB coal production forecasts and both railroad and mine infrastructure capacity needed to support forecasted production. Recommendations for railroad capacity proposed by CANAC in 1999 are in the final stages of completion and will be fully implemented by September 2006.

CANAC began a new study of the Joint Line in early Fall 2005, and presented its preliminary findings to the two railroads in early 2006. In response, Union Pacific and BNSF have advanced construction plans to add the more than 40 miles of third and fourth main line capacity to meet the annual projected growth in demand for SPRB coal in 2007 through 2009. These activities include construction of a fourth main line over Logan Hill and construction of a third main line at the north end of the Southern Powder River Basin.

"I'm very pleased at this investment in Wyoming infrastructure," said Gov. Dave Freudenthal. "I'm also encouraged by the action, which reflects a new level of responsiveness to our need for more rail capacity to move Wyoming coal to market. This project could have a significant impact on our ability to sell Wyoming coal."

Over the last 20 years, there have been significant increases in the SPRB Joint Line production volume. In 1985, the Joint Line handled 19 million tons of coal. To meet the growing demand for Western coal, volume grew steadily and in 2005, the Joint Line capacity had grown to handle an

all-time record 325 million tons. These improvements will enable the Joint Line to handle in excess of 400 million tons of coal.

Coal-fired power generating technology has improved considerably over the last 20 years. With coal processing technology advances, future coal power systems will be dramatically cleaner and more efficient than plants based on older technologies. Coal is also relatively inexpensive compared to natural gas, which has had highly erratic prices the last few years, and oil, which is used as a fuel source on a rather limited basis. Coal is viewed as one of the best sources of clean, economical fuel to power the needs of North America and reduce its dependency on foreign oil.

About Burlington Northern Santa Fe Corporation

Burlington Northern Santa Fe Corporation's subsidiary BNSF Railway Company operates one of the largest railroad networks in North America, with about 32,000 route miles in 28 states and two Canadian provinces. The railway is among the world's top transporters of intermodal traffic, moves more grain than any other American railroad, transports the components of many of the products we depend on daily, and hauls enough low-sulphur coal to generate about ten percent of the electricity produced in the United States. BNSF is an industry leader in Web-enabling a variety of customer transactions at www.bnsf.com.

About Union Pacific Corporation

Union Pacific Corporation owns one of America's leading transportation companies. Its principal operating company, Union Pacific Railroad, links 23 states in the western two-thirds of the country and serves the fastest-growing U.S. population centers. Union Pacific's diversified business mix includes Agricultural Products, Automotive, Chemicals, Energy, Industrial Products and Intermodal. The railroad offers competitive long-haul routes from all major West Coast and Gulf Coast ports to eastern gateways. Union Pacific connects with Canada's rail systems and is the only railroad serving all six major gateways to Mexico, making it North America's premier rail franchise.

For Union Pacific Railroad

Media

James Barnes
jebarnes@up.com
Director Media Information
Corporate Relations
(402) 544-3560

For BNSF Railway

Media

Richard Russack
Richard.russack@bnsf.com
Vice President
Corporate Relations
(817) 867-6425

This press release may contain statements that are not historical facts. These statements are or will be forward-looking statements, as defined by the Securities Act of 1933 and the Securities Exchange Act of 1934. Statements and related information in this report, including those regarding the costs and expected completion dates of various projects to expand capacity on the SPRB Joint Line and operational plans to improve coal hauling capacity are forward looking statements. Forward-looking statements should not be read or construed as a guarantee of future performance or results and will not necessarily be accurate indications of the times that, or by which, such performance or results will be achieved. Forward-looking statements and related information are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in the statements. Information regarding risk factors and other cautionary information that are relevant to Union Pacific and BNSF Railway Company, respectively, are contained in the securities filings made by these companies (or their

parent entities) with the Securities and Exchange Commission (SEC), including their respective annual reports on Form 10-K for 2005. These filings are available on the SEC's website at www.sec.gov, and these filings are also available on the websites of each of the companies. Forward-looking statements speak only as of the date the statements were made. Union Pacific and BNSF Railway Company do not assume any joint or individual obligation to update forward-looking information to reflect actual results, changes in assumptions or changes in other factors affecting forward-looking statements and information.

The statements and information contained in the news releases provided by Union Pacific speak only as of the date issued. Such information by its nature may become outdated, and investors should not assume that the statements and information contained in Union Pacific's news releases remain current after the date issued. Union Pacific makes no commitment, and disclaims any duty, to update any of this information.

Source: http://www.uprr.com/newsinfo/releases/capital_investment/2006/0508_sprb.shtml



Arkansas Electric Cooperative Corporation

Your Touchstone Energy Cooperative



8000 Scott Hamilton Drive
P.O. Box 194208
Little Rock, Arkansas 72219-4208
(501) 570-2200

August 12, 2005

The Honorable Roger P. Nober, Chairman
Surface Transportation Board
1925 K Street, N.W.
Washington, D.C. 20423-001

Re: Railroad letters about fall peak service plans

Dear Chairman Nober:

Arkansas Electric Cooperative Corporation (AECC) is a generation and transmission cooperative providing electric generation and transmission services for the 17 rural electric distribution cooperatives in Arkansas. Our member cooperatives in turn serve their approximately 430,000 members by providing reliable and economic retail electric service. AECC uses coal, natural gas and fuel oil to generate this electric energy. We also utilize hydroelectric generation when available and purchase power when it is economical to do so.

Coal fuels the majority of AECC's generation. AECC's coal-fired generating plants are jointly owned with other utilities, and were designed to burn the abundant and clean burning sub-bituminous Powder River Basin (PRB) coal found in Wyoming and Montana. The plants in which we have an ownership interest normally consume in excess of 14 million tons of PRB coal each year. For transporting this coal to our Arkansas plants we have depended on the railroads since the late 1970's. AECC is currently in a dilemma with respect to quality rail transportation service.

AECC appreciates your efforts last year and again this year to get the railroads to publicly say how they plan to deal with the peak demand for their transportation services. The information presented by the railroads gives us some indication of how the railroads are approaching the problems we are experiencing with rail transportation. The recognition bestowed upon the Board by the Congressional Budget Office highlights the way actions by the Board can improve performance for railroads and customers alike.

Of particular importance this year, the peak planning process enables the Board to examine the railroads' efforts to satisfy the needs of PRB coal users in the context of other peak period demands. This, in turn, may enable the Board to identify further steps it could consider to further improve the situation for railroads and their PRB coal customers.

As you know, to move PRB coal to plants in Arkansas, the only options currently available involve the BNSF Railway (BNSF) and/or Union Pacific (UP). One of AECC's plants is completely captive to UP. For these reasons, AECC focuses primarily on the BNSF and UP letters.

BNSF and UP both emphasize the way the requirements of the investment community influence their actions regarding capacity. BNSF's Matthew Rose states, "...there are significant financial constraints that will not allow BNSF...to invest in sufficient capacity." UP's Dick Davidson says, "...we expect to invest in new capacity as returns on investment justify, given the revenues we are able to earn in the marketplace and the constraints that government actions place on them." Basically, the railroad position seems to be that if there's enough traffic paying high enough rates, they'll be able to supply enough capacity. The corollary to that seems to be that everyone should expect that they're going to need more revenue if the needed capacity is to materialize.

AECC is keenly aware that the railroads do not currently have the infrastructure needed to deliver the products they have contracted to transport. Even before the Joint Line situation arose, our plants did not receive all the coal transportation obligated under contract in 2004. This situation was made much worse by the crisis that began in mid-May this year on the PRB Joint Line. The railroads have indicated that this shortfall in deliveries will continue through 2005 and may even continue into 2006. Furthermore, they have indicated they will not make up these shortfalls.

This lack of performance by the railroads places a very heavy financial burden on our members and other electric consumers in Arkansas and elsewhere. AECC and the other plant owners have had to restrict the amount of coal that is being burned at our coal-fired power plants. AECC has an obligation to serve its members. Therefore, we are providing the needed electrical generation from other, much more expensive, sources. Our members, the electric consumers, are the ones who ultimately must pay the higher price.

This is the third time in the last twelve years that we have had to place burn restrictions on our coal-fired power plants due to an inability on the part of the railroads to satisfy their contractual and/or common carrier obligations. If anything, we are experiencing shortfalls of increasing severity and duration. Given the huge growth in PRB volumes that occurred during this time, AECC believes that neither coal shippers nor the Board can rely on the proposition that the railroads and the investment community, left to their own devices, will automatically supply adequate capacity.

A closer look at the origins of the current Joint Line problem demonstrates the dangers associated with this approach. BNSF and UP have both asserted that the cause of the PRB Joint Line crisis this year was the "unusual" and "unprecedented" amounts of snow and rainfall acting upon accumulated coal dust. In checking National Oceanic and Atmospheric Administration (NOAA) data for this portion of Wyoming, we find no truth in these assertions. For example, the historical average amount of moisture received in May, expressed in inches of water, is 2.50 inches for Douglas, WY (near the south end of the Joint Line) and 2.95 inches for Gillette (near the north end). In May of 2005, Douglas received 2.55 inches, just 0.05 inches above average. At the same time, Gillette received 2.89 inches or 0.06 inches below average. Both locations received less than average precipitation in April 2005. For the entire precipitation cycle beginning October 1, 2004, there appears to be no part of the Joint Line that received abnormally high precipitation.

Given that the weather really was neither "unusual" nor "unprecedented", the problem can properly be seen as the failure of the railroads to maintain the Joint Line roadbed in useable condition. As UP's letter indicates, the accumulation of coal dust was not hidden, at least not from those responsible for operating and maintaining the line. Rather, the evidence suggests strongly that the railroads chose to simply let the dust accumulate rather than take the steps needed to maintain the roadbed.

Deferring maintenance might be understandable if the line in question were a marginal branch line that didn't cover its costs. However, the PRB Joint Line is one of the busiest rail lines in the world. In maximum rate reasonableness cases, the Board has found that this facility generates traffic that "pays its own way" in terms of covering operating costs and providing a market rate of return on the capital associated with the relevant portions of the rail network. The railroads cannot credibly assert that the volumes or rates associated with PRB coal traffic are insufficient to justify proper maintenance of the Joint Line.

What coal shippers and the Board are left with is the apparent willingness of the railroads to "bet the rent" that the drought of recent years in eastern Wyoming would continue, and let their bottom line results be inflated by the "savings" associated with not maintaining the line. Unfortunately, pressure from the investment community to produce favorable results in the short term can lead to this type of myopic decision-making. Coal shippers, who are here for the long term, need the Board's help to send a clear message to the investment community and to railroad management: The public interest does not permit this type of trifling with the rail network in the name of short-term gains.

With the repeated and ongoing problems associated with moving PRB coal to our plants, AECC and others looking for reliable and economical fuel supply for electric generation are being forced to look at alternative fuel supplies, many of which do not involve the railroads at all. Current and future power plants may make much greater use of locally available lignite and petroleum coke or fossil fuels from Central and South America. Needless to say, actions by the railroads that push users of America's most abundant and economical energy resource to convert to more expensive imported fuels cannot be viewed as being consistent with the public interest.

AECC is still evaluating specific potential steps that may be warranted in light of the Joint Line problems and the responses we have received to date from the railroads regarding our efforts to adapt to the PRB shortfall. In some cases those efforts involve rail transportation of coal from non-PRB sources, which should not be affected by the Joint Line problems or any associated embargoes. Unfortunately, we may need the Board's help to get the rail service we are entitled to under contract and/or the common carrier obligation of railroads. We can assure the Board that any action we ultimately request will be consistent with the Board's mandate to protect the public interest regarding the rail network, and with legitimate capacity issues the railroads may have associated with the provision of service to all of their customers during the peak period.

AECC appreciates very much the opportunity to submit these comments for your consideration.

Sincerely,

A handwritten signature in dark ink, appearing to read 'G. Voigt', is written over the printed name.

Gary Voigt
President and Chief Executive Officer
Arkansas Electric Cooperative Corporation