

WATT'S HAPPENING

SCENIC RIVERS ENERGY COOPERATIVE

LANCASTER, DARLINGTON AND GAYS MILLS, WISCONSIN

Railroading the Electric Energy Industry

High energy costs are in the news, and on the minds of Scenic Rivers Energy Cooperative members. What is influencing cost increases in the electric industry? There are many factors that will ultimately force the need for rate changes in our industry and also for Scenic Rivers Energy Cooperative. In the next few months, we will be talking about these financial impacts in a series of newsletter articles. This month will focus on how excessive railroad rates are negatively affecting our wholesale power supplier, Dairyland Power Cooperative, and, in turn, our cooperative membership.

Scenic Rivers Energy Cooperative is a distributor of electricity produced by coal, natural gas, hydroelectric, landfill gas, wind and animal waste-to-energy power plants. We are one of 25 member cooperatives who own Dairyland, which is based in La Crosse, Wis.

Fuel to operate Dairyland's generating facilities, primarily coal, accounts for our power supplier's largest single expense. These costs are comprised of the fuel itself and the cost to deliver it. Dairyland's power plants use about 3 million tons of coal each year. The coal is mined and shipped via rail and/or barge to Dairyland from mines in Wyoming, Utah and southern Illinois.

Over the last couple years, the cost to ship coal by rail has become a burgeoning problem to utilities. Rail costs affect us because the vast majority of our electricity is generated using coal and all of Dairyland's coal is moved by rail to

our plants or barge loading facilities.

The problem swelled to crisis levels this year, as prices for rail transportation are currently estimated to double for Dairyland as we move into 2006. This staggering fact is likely to yield an increase on the order of \$40 million in total delivered fuel costs for Dairyland. As a part-owner of Dairyland, Scenic Rivers Energy Cooperative is directly impacted.

De-railed: A short history of rail delivery

In 1980, the U.S. Congress passed the Staggers Act deregulating the railroad industry. At the time, there were 40 major railroads in the US, providing customers with competitive rates and decent customer service.

Today, there are only seven major railroads in our country and 90 percent of the traffic is handled by only four of these largest railroads. The Powder River Basin area of Wyoming, which is the major source for low sulfur coal to the country and Dairyland's largest source of coal, is served by only two railroads.

In 2004, demand for railroad transportation of products and merchandise (not just coal) exceeded the capacity of the nation's railroads to deliver those goods. In particular, intermodal

traffic (moving containers and truck trailers) has grown rapidly in response to consumers' appetites for imported goods. In recent years, the number of carloads of intermodal traffic has surpassed the number of coal cars loaded.

With no excess capacity, the railroads have no incentive to compete for a shipper's business. In these circumstances, the railroads tend to price transportation at the highest rate that will result in 100 percent utilization of the available capacity. With its rail transportation contracts expiring at the end of 2005, Dairyland will suffer the full impact of the current rail-pricing model.

Another casualty in the current rail market is customer service. One of the western railroads has refused to make up the delivery shortfall that occurred in 2004. Small shippers and difficult movements are being dropped by the railroads.

Dairyland's barge coal movement is difficult in that it ships seasonally. Dairyland has traditionally shipped coal from March to October to coincide with the barge navigation on the Upper Mississippi River. Now, to assure 100 percent utilization of engines and locomotives, the railroads insist upon year-round shipments of this barge coal. Year-round

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(continued...)

shipments require temporary storage (and extra expense for Dairyland) at the rail-to-barge transfer facilities in the St. Louis vicinity.

Without a competitive market, fees have risen as customer care has plummeted. Customers, like Dairyland, are literally captive to the service and prices of certain railroads. This "captive rail" crisis has spurred development of new legislation, which Dairyland and the National Rural Electric Cooperative Association (NRECA) are supporting. Both are members of an organization called Customers United for Rail Equity (CURE) which lobbies for increased rail competition.

Even in areas where multiple rail sources are available, demand for rail service is exceeding supply. Dairyland was faced with a "take it or leave it" offer—with no other provider to go to for this critical service. Dairyland and others are seeking protection from price gouging due to limited competition as currently exists in the Powder River Basin area.

We support the legislative initiatives, such as the Railroad Competition Act of 2005, which would provide captive rail customers, like Dairyland, access to fair business practices such as rail competition and protection from price gouging. Restoring a fair and reasonable rail market is key to reducing energy

costs for our cooperative members. We also support an effort underway in Congress, led by Wisconsin Congressman Mark Green (R-Green Bay) to repeal the anti-trust exemption currently granted railroads.

Looking ahead

Dairyland has been stonewalled in its many attempts to negotiate reasonable rail prices for future contracts, while at the same time railroads have refused to make up delivery shortfalls. Additionally, the coal that can be delivered to Dairyland by barge has also been beset with problems, in part caused by Mother Nature. Hurricane Katrina and other devastating storms near the Mississippi River in the south disrupted barge service to northern destinations. This combination of factors has created a very negative domino effect on the electric cooperative energy business.

With the increased rail, barge and transfer terminal costs included, the total transportation component of delivered coal cost is estimated to easily exceed 70 percent in 2006. Dairyland and Scenic Rivers Energy Cooperative are working hard to minimize the impacts of these significant cost increases on your energy bills.

Despite the proposed legislation and increasing pressure on railroads to reinstate just business practices,

the outlook for transportation relief is uncertain. That uncertainty, coupled with the massive cost increases, is a major driver in the need for increased rates. We assure you that we are working with Dairyland, government officials and others in the industry to help correct practices, such as the railroad abuse, that hurt our cooperative.

As a member, your support of our efforts to achieve change through our government officials is important. One of the single best things you can do to help is to write your federal Congressional representatives and U.S. Senators and ask them to support railroad fair practices and competition. If you see a political leader at an event in your community, be sure to raise this issue. Encourage your elected official to support and work for legislation to put teeth in the Staggers Act and to repeal the outmoded and unnecessary antitrust exemption railroads currently enjoy. Point out that your electric rates are going to increase significantly and we need rail rate relief.

We expect this to be a major issue for all cooperatives in the next few years. We will continue to share information on this important topic, so you can be well informed and be active to help level the playing field and keep our electric rates as low as possible.

Currently Cooking



While visiting at Orchard Manor, one of the nurses gave me this recipe. I tried it and I agree that they are good and so easy to prepare.

Funfetti Cookies

Preheat oven to 375°.

- 1 box of Funfetti cake mix
- 1/3 C cooking oil
- 2 eggs

Mix above ingredients together. Roll into walnut size balls. Put on cookie sheet; press with glass dipped in flour. Bake for 7 minutes. Cool 1 minute on pan and then place on cooling rack. Frost and enjoy.

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Watt's Happening is published monthly as an information service to the member-owners of Scenic Rivers Energy Cooperative.

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