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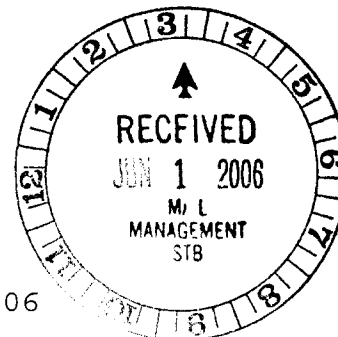
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ORIGINAL



BY HAND

June 1, 2006

Hon. Vernon A. Williams, Secretary
Surface Transportation Board
1925 K Street, N.W.
Washington, D.C. 20423-0001

RE: STB Finance Docket No. 34177, Iowa, Chicago &
Eastern Railroad Corporation - Acquisition and
Operation Exemption, et al;

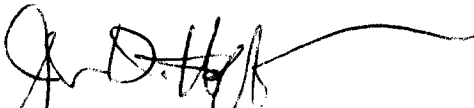
STB Finance Docket No. 34178, Dakota, Minnesota &
Eastern Railroad Corporation, et al,

Dear Mr. Williams:

I am enclosing for filing in the above-captioned proceedings an original and ten copies of the Reply Comments for the City of Owatonna, MN. I am also enclosing a computer disk formatted in MS Word containing this filing.

Please date stamp and return one copy for my records.

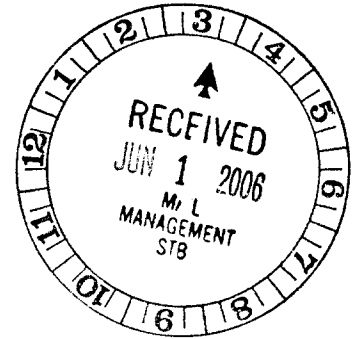
Sincerely yours,


John D. Heffner

cc: All Parties

ORIGINAL

BEFORE THE
SURFACE TRANSPORTATION BOARD



216679

FINANCE DOCKET NO. 34177

IOWA, CHICAGO & EASTERN RAILROAD CORPORATION
- ACQUISITION AND OPERATION EXEMPTION -
LINES OF I&M RAIL LINK, LLC

216680

FINANCE DOCKET NO. 34178

DAKOTA, MINNESOTA & EASETERN RAILROAD CORPORATION
AND CEDAR AMERICAN RAIL HOLDINGS, INC.

- CONTROL -

IOWA, CHICAGO & EASTERN RAILROAD CORPORATION

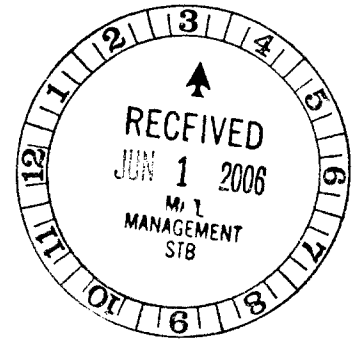
REPLY COMMENTS OF THE CITY OF OWATONNA, MN

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John D. Heffner
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1920 N Street, N.W.
Suite 800
Washington, D.C. 20036
(202) 263-4180

Dated: June 1, 2006

BEFORE THE
SURFACE TRANSPORTATION BOARD



FINANCE DOCKET NO. 34177

IOWA, CHICAGO & EASTERN RAILROAD CORPORATION
- ACQUISITION AND OPERATION EXEMPTION -
LINES OF I&M RAIL LINK, LLC

FINANCE DOCKET NO. 34178

DAKOTA, MINNESOTA & EASETERN RAILROAD CORPORATION
AND CEDAR AMERICAN RAIL HOLDINGS, INC.
- CONTROL -
IOWA, CHICAGO & EASTERN RAILROAD CORPORATION

REPLY COMMENTS OF THE CITY OF OWATONNA, MN

INTRODUCTION

On May 12, 2006, Petitioners Iowa, Chicago & Eastern Railroad Corporation ("IC&E") and Dakota, Minnesota & Eastern Railroad Corporation ("DM&E") (or collectively "Petitioners") filed a request with the Board to, in its words, "partially reopen" the decision served July 22, 2002, in FD No. 34177, the IC&E Acquisition proceeding, to "modify the housekeeping conditions imposed in ordering paragraphs 2 and 3 of that decision, and to accept for consideration information regarding the coal traffic from DM&E's new line into the Powder River Basin ("PRB") that may be diverted onto the former rail lines of I&M Rail

Link, LLC ('IMRL') as a result of IC&E's acquisition of IMRL's assets and DM&E's control of IC&E." The lines of these two railroads cross in downtown Owatonna, MN. With regard to the Board's environmental review, Petitioners request is ambiguous. On the one hand it appears to ask the Board to commence its environmental review immediately. On the other hand, Owatonna reads the request, if granted, as allowing DM&E and IC&E to interchange DM&E's PRB coal traffic in Owatonna without any additional environmental review (because none is said to be needed) once DM&E completes its line construction around 2009.

Owatonna urges the Board to keep its "housekeeping stay" in effect for such modest additional time as may be necessary for the City to be able to meet with Petitioners to address the City's concerns. Owatonna submits that allowing the stay to dissolve before even instituting a short notice and comment proceeding would be contrary to the public interest and the Board's mandate under the National Environmental Policy Act.

BACKGROUND

As the Board will recall, Owatonna is a city of approximately 24,000 people located about 60 miles south of the Twin Cities. Three different rail lines serve Owatonna. The Union Pacific ("UP") (former Rock Island)

"Spine Line" linking the Twin Cities with Kansas City serves Owatonna. The DM&E main line between Winona, MN, and points in South Dakota operates east to west through Owatonna.¹ And the IC&E (former IMRL) line between the Twin Cities on the north (partially over trackage rights on UP) and Cedar Falls, IA, on the south passes through the City as well.

Owatonna was one of several Minnesota cities that participated in the Board's proceeding involving DM&E's application ("the construction case") to construct and operate a new line of railroad to serve the PRB coal reserves in Wyoming. Owatonna was particularly concerned in that proceeding about the community, safety, and environmental implications of the 37 coal trains that DM&E was planning to operate daily through the City. Some of these trains would likely move from the DM&E to the former IMRL, now current IC&E rail line. The City urged that any connecting link built between these two lines be constructed outside, rather than inside, its boundaries. Ultimately, the City reached a voluntary agreement ("the Community Partnership Agreement") with DM&E covering various issues and it withdrew from the construction case.

¹ DM&E operates over a short segment of track in downtown Owatonna leased from UP. It is that track segment which connects directly with the IC&E track. This UP-owned track does not connect with the Spine Line or any other UP-owned track.

Among other provisions, that Agreement called for DM&E to negotiate with UP to utilize a short segment of UP track downtown to make a direct connection between the DM&E and current IC&E Railroads rather than to construct any sort of connecting loop.² Subsequent to execution of the Community Partnership Agreement, DM&E's owners acquired IMRL's assets and operations and established a new railroad under the name, the Iowa, Chicago & Eastern Railroad Corporation.

Petitioners represent 1) the "housekeeping stay" prevents IC&E from handling any trains originating or terminating on DM&E's new route into the PRB until the Board completes an environmental review of traffic moving through Owatonna; 2) this restriction inhibits DM&E's ability to get financing for the PRB line construction; 3) the Board should remove this stay immediately without waiting for the "first spade of dirt [to be] turned;" 4) the Board should begin its environmental review now without waiting for construction of the PRB line to begin; and 5), somewhat inconsistently Owatonna notes, no further environmental review of the Owatonna routing is really required because this action fits within the categorical exclusions of 49 CFR 1105.6(c)(2)(i) and 1105.7(e).

² UP eventually agreed to let DM&E interchange traffic directly with IMRL and now IC&E over the leased track.

Petitioners urge that no additional environmental study is needed because a connection between the DM&E and the IC&E does not entail any more environmental impacts than a connection between the DM&E and an independently owned IMRL would have entailed. Aside from lifting the "housekeeping stay" and commencing the environmental review process immediately, Petitioners suggest that the Board issue a notice seeking public comment with such comments due within 20 days of the date of issuance, a short period for Petitioners' reply, and a prompt Board decision.

OWATONNA'S INITIAL COMMENT

Petitioners' request that the Board immediately dissolve the "housekeeping" stay while it considers the merits of their request would be contrary to the public interest and the Board's mandate under the National Environmental Policy Act to properly evaluate transactions presented for its review and approval. As a city that lies at the connection of these two rail lines, Owatonna is clearly and uniquely affected by this transaction and therefore has a right to participate in this proceeding.

Owatonna believes that it would be appropriate to address its concerns in any amendment to its Community Partnership Agreement with the DM&E that it and the DM&E negotiate. However, Petitioners' fast track unilateral

approach makes such a discussion more difficult, if not impossible. Owatonna does not oppose Petitioners' desire to route PRB traffic from the DM&E to the IC&E at Owatonna. It also recognizes the "cloud" that the Board's "housekeeping stay" casts upon Petitioners' ability to obtain financing for the PRB construction. But it does have certain issues it wishes for Petitioners to address. It merely wants the Board to refrain from removing the "housekeeping stay" for such minimal time as necessary to allow the City to meet and talk with Petitioners. Clearly a delay of another couple of months will not adversely affect DM&E's ability to obtain financing for the construction project and will afford the parties to meet to address the City's concerns. In that regard, the City notes that it would have been unaware of Petitioners' filing but for the vigilance of its outside counsel. Petitioners did not provide City officials a copy of their filing³ or advise that such a filing would be made. Accordingly, the City of Owatonna requests that the Board postpone dissolving the "housekeeping stay" until after the Board issues its public notice and takes comments and

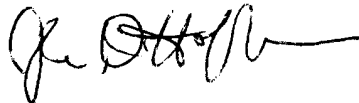
³ However, Petitioners' counsel did provide counsel for the City with a copy of their Petition.

replies from interested parties. The City has no objection to other elements of Petitioners' request.

CONCLUSION

The City of Owatonna requests that the Board deny Petitioners' request that its "housekeeping stay" be dissolved immediately. It should be continued in force during the pendency of the short notice and comment period requested by Petitioners.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "John D. Heffner", with a long horizontal stroke extending to the right.

John D. Heffner
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Dated: June 1, 2006