



Public Service Commission of Wisconsin

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PSC Plans to Look at Impacts of Railroad Coal Shipping Rates and Dependability on Wisconsin Electric System

MADISON – The Public Service Commission of Wisconsin (PSC) announced plans today to take an in depth look at the impacts of increasing railroad coal shipping rates and reliability problems on electricity generation and costs in Wisconsin as part of the study on rising fuel prices initiated earlier this month.

“We depend on the rail system in this country to move thousands of tons of coal into Wisconsin to generate electricity. The problems we are seeing in dependability and shipping costs for coal, as well as increased costs for coal, are critical to our ability to meet this state’s energy needs,” PSC Chairperson Dan Ebert said. “We have to take any steps available at the state level to address the challenges presented by increasing costs for coal and its transportation as well as volatile, unregulated natural gas prices.”

Coal is not the only commodity impacted by increased costs and service problems in the rail industry. Wisconsin’s paper, timber and agricultural industries as well as manufacturers need reliable, cost-effective rail service. Current rail service and cost problems are having impacts across all sectors of Wisconsin’s economy.

Over the last 20 years, the railroad industry has consolidated to the point where there are only four Class I railroads providing over 90 percent of the nation’s rail transportation. Many have questioned the lack of competition among the railroad companies for the high shipment prices and unreliable shipping service.

Wisconsin produces about 60 percent of its electricity from coal, the majority of which comes from the Powder River Basin in Montana and Wyoming and the Appalachian region. There are only two railroad companies available to ship coal from these areas.

“Coal and gas are two major drivers that impact the cost of electricity for Wisconsin consumers. While this Commission has no control over the actual costs for either of these commodities, we do oversee how the utilities purchase fuel and how it is delivered to consumers,” Commissioner Mark Meyer said. “Given the increasing costs to ship coal and the recent volatility of natural gas, the time is ripe to explore these issues.”

Without reliable coal transportation, utilities must conserve their coal inventories, using higher priced natural-gas fired generation to produce electricity, adding to the cost of energy in

Wisconsin. Last year Wisconsin utilities incurred nearly \$50 million in costs associated with reduced shipments from Wyoming, the result of a train derailment and resulting rail maintenance.

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In addition, once-stable coal prices have nearly doubled recently. Powder River Basin coal sold for around \$6 per ton in 2003, today it is selling for as much as \$20 per ton. Appalachian coal, a much higher heat rate coal, went from around \$25 per ton in 2003 to as much as \$60 per ton today.

Earlier this month the Commission announced plans to examine natural gas storage and procurement strategies to find ways to lower the impact of volatile natural gas prices on ratepayers. Today, the Commission added issues around coal prices, procurement and transportation to the study.

The Commissioners noted the similarities between unregulated, high natural gas prices and the monopoly-type prices set by the few remaining railroad companies, saying that any direct impact on natural gas prices and rail transportation costs must come at the federal level. They said that at the state level, Wisconsin must use purchasing and procurement strategies to try to get the lowest cost possible for natural gas and coal and take advantage of all opportunities to save ratepayers money.

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