

First of all, I would like to thank the Department of Energy for allowing me to speak today about the importance of the nation's rail infrastructure to my company and to all of our customers.

My name is Dave Wanner. I am the Manager of Fuel Services for Wisconsin Public Service Corporation, WPS for short. WPS serves approximately 445,000 electric customers and 323,000 natural gas customers, primarily in Northeastern Wisconsin. During 2013, approximately 82% of the electricity we generated and 55% of all electricity we provided to our customers came from our own or our share of jointly owned coal fired power plants. Our coal plants burn coal from the Powder River Basin in Wyoming. All of the coal is transported by rail and there is no viable alternative mode of transportation.

Events that began in late 2013 and continue to this day illustrate both the importance of rail to our business and the need for improvement. My comments will be based on events at our Weston site, located in north central Wisconsin, which is our largest source of coal-fired generation.

At the beginning of December 2013, our coal inventory at Weston was at about 105% of our targeted level. Rail deliveries during 2013 had been generally reliable. Then rail service began to degrade. Our December railroad cycle times increased over 25% compared to the year-to-date average. The railroad cycle time is the time it takes a railroad to move a loaded coal train from the mine to the power plant plus the time it takes to move the train back to the mine after it has been emptied. By the end of December 2013 our inventory was down to 72% of target.

By this time we were in the midst of a severely cold winter. Delivered natural gas prices into parts of Wisconsin had skyrocketed, at times being more than five times higher than the commonly quoted Henry Hub price, which was itself on the rise. As was the case on the East coast, a shortage of pipeline capacity was a primary cause of the skyrocketing delivered natural gas prices in Wisconsin. This illustrates one of coal's significant advantages as a source of electricity. Coal is the only major generation source able to store significant amounts of fuel on site. However, without reliable rail service, inventories can fall rapidly, nullifying this advantage.

Rail service to Weston continued to be substandard throughout January and February of 2014, so that by the end of February, our inventory was down to 23% of target. At the beginning of March, we instituted coal conservation measures in order to avoid completely running out of coal. These measures increased the cost of providing electricity to our customers since lower cost coal fired generation was replaced with more expensive alternatives. Despite these measures, inventory by the end of March had recovered only to 28% of target. Cycle times during the first quarter of 2014 were more than 65% greater than the 2013 January through November average. Weston's inventory did not recover significantly until a planned May 2014 unit outage.

Initially, the railroads serving Weston indicated that severe winter weather was the primary cause of the service degradation. However, after winter ended, rail service to Weston did not significantly improve. Cycle times during the second quarter of 2014 were almost 50% greater than the 2013 January through November average. A cool start to summer has helped us

retain inventory to some extent, although service continues to lag and we lost an amount of inventory equal to about 17% of our target during July 2014.

Several areas of concern must be addressed to maintain rail infrastructure as a valuable contributor to coal's role as a reliable and economical source of electric generation in the years ahead:

- Sufficient infrastructure must exist to move all traffic. Both of the railroads involved in moving coal to Weston reported year over year gains in both revenue and volume during both the first and second quarters of 2014. The fact that not only coal shippers, but other shippers such as grain shippers were also experiencing rail service shortfalls during this time of railroad volume growth would seem to indicate a shortage of rail infrastructure.
- There must be increased rail system transparency. It is difficult to gauge how long and to what extent rail service will be degraded without an idea of what type and amount of traffic is competing with our coal trains for railroad resources. This hampers our ability to minimize the cost of rail service shortfalls to our customers.
- Rail competition must be enhanced. Only two railroads have access to the Powder River Basin. In addition to allowing significant pricing power, this also allows railroads to dictate contract terms related to service standards. One-sided service standards can degrade electric reliability by allowing railroads to shift resources away from coal deliveries without penalty.