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DAVID L. STARLING
PRESIDENT AND
CHIEF EXECUTIVE OFFICER

September 12, 2014

The Honorable Daniel R. Elliott, III
Surface Transportation Board
395 E Street S.W.
Washington, D.C. 20423-0001

Dear Chairman Elliott:

Thank you for the opportunity to share The Kansas City Southern Railway Company's (KCSR) readiness to handle our customers' peak season shipping needs this year. Like 2013, we expect a robust season, driven by record grain harvest volumes, stable coal shipments, new opportunities in crude oil and a strong domestic intermodal market. Fair to moderate strength across the balance of our business units is expected, as well as a moderate demand from the international intermodal segment.

As you know, most of KCSR's traffic is interchange traffic with other carriers. As a result, service problems on other railroads inevitably lead to service problems on KCSR. Specifically, service issues on BNSF have affected KCSR's ability to receive and return coal and grain trains on a sustainable cycle in Kansas City, Missouri; and heavy traffic through UP's Houston, Texas terminal and along its Cuero and Brownsville subdivisions in south Texas between Victoria and Robstown, has significantly affected KCSR service. As you know, KCSR operates over trackage rights granted by the STB from the UP-SP merger to connect with the line of The Texas Mexican Railway Company, a KCSR subsidiary. While we continue to experience these service-related issues, KCSR is actively working with the other railroads to explore alternate routing to minimize the impact as much as possible.

Safety will always be KCSR's highest priority and our operations team continues to actively promote safety every day across our network. KCSR has representatives on approximately 40 Safety and Operations Management Committees (SOMC), including the key areas of Asset Health, Hazmat and PTC.

KCSR continues to expand the capabilities of our new, in-house Transportation Engineering and Mechanical (TEaM) Training Center in Shreveport, Louisiana. New hires are trained using advanced online and computer simulation training methods. Planned additions of conductor and locomotive simulators will further improve the hands-on training experience for our transportation craft employees. Right now, about 50 new hires begin training every six weeks, and we expect to hire around 400 new employees for the operations department in 2014.

To facilitate the movement of bulk unit trains, KCSR is aggressively purchasing new locomotives. For the period of January 2014 through July 2015, KCSR will have added 135 new locomotives, representing a 15 percent increase in our active fleet size. This represents a sizable capital investment and underlines KCSR's commitment to manage current volumes and be well-positioned for future growth opportunities.

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KCSR has also invested in rail car fleet additions to protect growth and ultimately peak demand. In 2013, the company purchased 200 tri-level auto-racks, 260 covered hoppers and 175 auto-max tri-level articulated vehicle carriers. In 2014, the company purchased 100 multi-levels and 200 covered hoppers.

Additionally the company has significantly improved the age and condition of our auto-rack fleet through a lease conversion program where 760 racks, 15 years of age, will be returned by the end of 2014. This capacity was replaced with brand new equipment.

We continue to increase our position in various car types with TTX, including boxcars, flat cars, mill gondolas and 53 feet double stacks.

The company continues to aggressively deploy capital for infrastructure improvements and capacity enhancements. Notable 2014 projects are:

- \$86 million in rail and tie renewal programs, the majority being spent on our key corridor routes between Kansas City, Missouri and Beaumont, Texas;
- \$5 million in rail and tie renewal in the Port Arthur, Texas area to support current business and future crude oil opportunities;
- \$20 million on major bridge rebuilds including the completion of a three-year, \$40 million project to replace over a mile of timber bridges with new concrete and steel structures;
- \$11 million in Centralized Traffic Control for our Laredo Subdivision between Corpus Christi and Laredo, Texas; and
- \$21 million in incremental capacity on the UP trackage rights between Victoria and Corpus Christi, Texas.

In addition, our new \$50 million intermodal facility in Wylie, Texas will come on line in the second quarter of 2015 and will support growth primarily in our domestic intermodal business.

Through KCSR's investments in people, equipment and infrastructure, I am confident that we are well-positioned to meet the needs of North American shippers for peak season and beyond.

Sincerely,



David L. Starling
President and CEO

cc: The Honorable Deb Miller, Vice Chairman
The Honorable Ann D. Begeman, Commissioner