

KANSAS CITY SOUTHERN

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MICHAEL R. HAVERTY
CHAIRMAN AND
CHIEF EXECUTIVE OFFICER



August 19, 2009

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

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BOARD
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Dear Chairman Elliott:

In response to former Acting Chairman Mulvey's letter of July 6, 2009, I am pleased to report on the readiness of The Kansas City Southern Railway Company (KCSR) and Kansas City Southern de Mexico, S.A. de C.V. (KCSM) for peak season. Despite the economy, 2009 has been a strong year operationally for KCSR and KCSM.

Mild seasons have meant that the railroads were not significantly affected by weather as in years past.

We still see caution from customers regarding peak season demand and are keeping a close watch on changes, so our operation can quickly adjust as needed. Overall, volumes are expected to be flat as compared to 2008 across most business groups, except coal. One utility customer has advance orders through 2009, indicating a nearly 25 percent tonnage increase year over year.

Targeted performance metrics are as follows:

	September	October	November	December
System Dwell	18.5	17.0	17.0	17.0
System Velocity	29.0	29.0	29.0	29.0
Total Cars On Line	44,335	45,197	43,693	42,227
T&E Employees	2,899	2,913	2,957	2,913

These performance goals will be achieved in a number of ways. Moving forward with the management cultural changes the railroads began to foster in 2008, significant improvements have been made in the area of fact-based, process-driven management, yielding better problem-solving capabilities and sustainable execution improvements.

Train velocity will be positively affected as the heavy maintenance season ends. Velocity remains fluid on both the KCSR line and the UP line that KCSR traverses between Beaumont and Robstown, Texas. With completion of the reconstructed Victoria to Rosenberg, Texas rail line this summer, operating expenses and transit times were reduced by avoiding a portion of the more circuitous route over the UP.

From 2007 to present, the railroads' terminal dwell performance improved as a result of a focus on train operations and key performance metrics. In 2009, the railroads implemented terminal load planning, a greater degree of scheduling precision for asset allocation, and service level agreements between departments. Each terminal is being evaluated as part of the greater network with an objective of optimizing productivity and reducing expenses.

Cars on line are soft as volumes remain down from previous periods. With major terminals fluid, the focus is on asset productivity and utilization to keep the on line inventory at manageable levels. As of August 1, KCSR and KCSM have approximately 4,000 cars in storage, 85 percent of which are serviceable. In preparation for demand increases, two fleets are strategically positioned within close proximity to natural demand corridors. Specifically, the grain hopper fleet is stored at Heavener, Oklahoma and Kansas City, Missouri on KCSR's primary north-south grain route. Both locations allow a train to be staged and serviced and are close to many originating points. The boxcar fleet is similarly situated on a branch line in eastern Mississippi, close to a major serving yard and several paper mills.

Train and engine crew planning has been especially difficult in this time of economic and regulatory change. The active base was reduced by 171 year over year, leaving only 58 furloughed employees. We continue to train engineers and use them as conductors, so we are ready for unpredicted increases in demand for crews. We have slowly begun the recall process, and significantly ramped up efforts in areas along the Gulf Coast where we see encouraging signs of volume recovery. Port Arthur, Lake Charles and Baton Rouge will be focal points leading into the fall. As of today, KCSR has 120 in the hiring process for the last half of the year. KCSM is also prepared for the business return with the majority of furloughed employees remaining on the payroll.

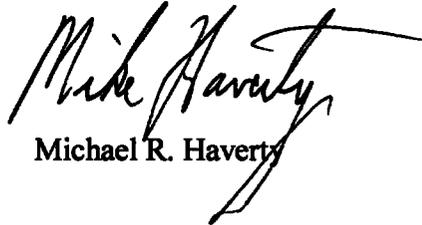
Needless to say, operating fluidity is not possible without the stellar safety performance of all operating groups. We are proud of the teams' safety accomplishments and will not rest at where we are today.

As in previous years, KCSR and KCSM will continue to share operating practices and peak season plans with customers through the sales and marketing departments. A newly established International Business Process and Transportation Service Plan Change Process, involving collaboration between customers and the KCSR and KCSM teams is fostering better joint decision-making and expediting projects.

In 2009, capital plans were scaled back and focused on the reconstruction of the Victoria to Rosenberg, Texas line and intermodal shipper facility. Investments in the Gulf Coast chemical production centers largely accounted for the balance of major line items, including a reconstructed yard in Reserve, Louisiana and enhancements to unloading/loading bulk-facilities in the Port Arthur, Texas area. These projects, coupled with structural health and capacity enhancements to KCSR's north-south line were the primary infrastructure concerns successfully addressed over the last year and a half.

We are confident that KCSR and KCSM are adequately prepared for a peak season surge. Thank you for the opportunity to respond to you on our efforts to prepare for the fall traffic surge. We would be delighted to provide any additional details that you or the Board might require.

Sincerely,

A handwritten signature in black ink, appearing to read "Mike Haverty", written in a cursive style with a long horizontal flourish extending to the right.

Michael R. Haverty