

KANSAS CITY SOUTHERN

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MICHAEL R. HAVERTY
CHAIRMAN AND
CHIEF EXECUTIVE OFFICER

September 14, 2007

The Honorable Charles D Nottingham
Chairman, Surface Transportation Board
1925 K Street, NW, Suite 810
Washington, DC 20423



Dear Chairman Nottingham

Thank you for your August 15, 2007 letter regarding railroad service plans for this fall. Kansas City Southern Railway (KCS) has been focused on preparing for the expected increase in fall traffic and is pleased to provide the information requested in your letter.

Train velocity and fluidity on the KCS railroad continues to be very good and train operations are steadily improving. Velocity now averages 24.1 MPH which is currently among the highest of the Class-I railroads. We expect to see further improvements as we continue to increase line capacity and complete on-going projects to improve overall train performance. We are confident the solid performance of our rail operation will enable us to meet the anticipated increased demands for service this fall.

Following are our specific responses to the seven requests for information mentioned in your letter.

1. The steps your railroad is taking to ascertain demand for and prepare for this year's peak shipping season, with an emphasis on the commodity areas of agriculture (grain, grain products, and ethanol) coal, chemicals, and intermodal

We meet with most of our larger peak season customers, one on one, to understand their respective demand requirements and actions required to meet their demands. Additionally we assess the respective market segment demand to determine the impact on our line, crew and locomotive requirements and make adjustments as required. Any issues that develop throughout the peak shipping season are reviewed each morning at our operational control meeting and specific customer concerns are addressed at that time.

A number of capital investments and ongoing operating changes have been implemented at KCS which will enable us to meet peak season demands. These have resulted in increased train velocity, higher capacity and more fluidity on the railroad. Examples include:

- a Acquisition of 120 new AC locomotives by year end. We will have 49 on the rail by the end of September, 42 more in October and the balance by Mid-December. These locomotives will be utilized in both the US and Mexico operations to directly support critical demands for service capacity both in gross tons and in system velocity.
- b Hiring of 67 additional mechanical staff to support the existing fleet of locomotives and ensure adequate availability. An additional 26 positions are in process. These positions will facilitate greater locomotive throughput at our recently upgraded Locomotive Repair and Maintenance facilities in Shreveport. In the spring of this year we constructed a new 2-track quick service facility located outside of the main shop area to allow expedited servicing of locomotive sets. This will enable an average of 40 locomotives to be serviced in this facility with a turn-around of 5-6 hours. This will increase our available pool to support manifest operations.
- c Investing in a 24 Hour/7 day-a-week service truck to service regional local engines on work sites eliminating the need to transport these locomotives to Shreveport for routine servicing.
- d Increasing Car Dept labor force in Shreveport by 5 individuals plus an additional 2 positions in process.
- e Uploading software upgrades on our fleet of Distributed Power Helper locomotives primarily used in Coal and Grain service. This software upgrade will allow greater flexibility of our fleet to match either BNSF or UP locomotives with different frequency modes. This will allow for efficiency gains in our DP Locomotive Pool and improve the velocity of our bulk network. Over 300 engineers have been trained to effectively use the technology across the system.

- f Focusing on "right-sizing" our freight car fleet through lease turn-ins and salvage programs and adding over 800 new 286K jumbo grain covered hoppers to the fleet. This number will grow by peak season to a total of 1050
- g Improving capacity by replacing an aging Alstom Train Dispatching system with a modern Wabtec System allowing for greater reliability in our Train Control system. This same Wabtec system has just been rolled out in Mexico continuing our commitment to a single operating platform for our systems
- h Improving train velocity by cutting over an additional 115 miles of Centralized Traffic Control (CTC) on the 315 Mile Meridian Speedway, bringing the total to date to 160 Miles. Of the remaining 155 Miles of Track Warrant Controlled Territory (TWC), 99% will be cut-over to CTC by the year's end
- i Investing in (2) Super Fuel Tankers located at Heavener, OK on our North-South Line. This has enabled us to reduce the dwell time associated with fueling on our main line from an average 45 minutes per train to 25. We routinely fuel 15 trains daily with an average 4 locomotives per train
- j Installing 460,000 ties this year, almost doubling the annual amount we installed before 2006
- k Relaying 80 miles of rail off the Meridian Speedway onto our Artesia Sub and into our New Orleans Yard. Overall 400 Miles of track will be upgraded in 2007
- l Replacing over 5,000' of timber bridges

2. A projection by month of your railroad's overall performance goals in the areas of cars-on-line, terminal dwell, train speed, and expected trainmen and engineer employment levels (L600) from September through December of this year

	Cars-Online	Terminal Dwell	Train Speed	I&E Employment
September	27576	22.3	24.1	1400
October	27900	22.5	23.75	1450
November	28400	22.75	23.75	1450
December	27900	22.3	24.1	1450

3. Your railroad's plans for achieving those goals;

- a Velocity improvements will be gained through the impact of system enhancements (primarily CTC cut-over)
- b Velocity improvements will in turn provide increased locomotive availability, system fluidity and improved terminal dwell time
- c New Locomotives in the fleet will provide needed Horsepower to keep the bulk network fluid and allow for DP opportunity in the manifest network to improve tonnage per train This will have a positive impact on terminal dwell time and cars on hand
- d Continuous proactive monitoring of crucial operating stats to assist in problem identification

4. Plans to communicate the above to Customers

We jointly review our peak season plans in concert with customer requirements as part of one-on-one meetings with customers The plan includes on-going communications to handle exceptions to the plan, including key point of contact

Our investment in the company has been something we have shared openly with our customer base and the general public and will continue to highlight aspects of our commitment such as our 2008 Locomotive Purchase Plan and 2008 Capital Program

5. Your railroad's capital plans for increasing capacity in 2008;

In 2008, our plan is to fund our capital program at 15% of revenues The spending will continue to focus on capacity related projects improving line-of-road and terminal capacity, locomotive reliability and availability, and ongoing rail, tie and bridge programs to improve the rail infrastructure

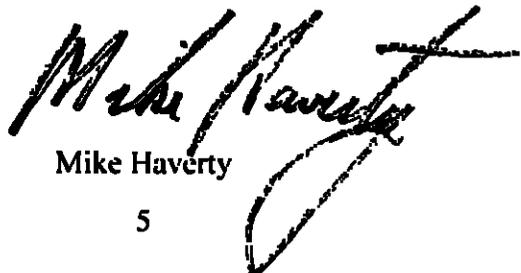
- 6. Your railroad's critical capacity-related infrastructure needs; and**
7. Your railroad's plans for addressing those critical capacity-enhancing infrastructure needs and your expectation for timely completion of those improvements

In addition to the new locomotive acquisitions and other capacity related projects discussed earlier, the following are additional critical capacity-related infrastructure projects in-process

- 1 Watts, OK empty covered hopper marshalling yard (Heavener Sub)
Projected completion – Fourth Quarter 2007
- 2 Jackson, MS siding and mainline fueling facility
Siding and tracks complete by Fourth Quarter 2007
Fueling facility projected completion - First Quarter of 2008
- 3 Jackson, MS - KCS/CN switch tender improvements
Phase I projected completion – Second Quarter of 2008
- 4 Stevens, LA siding – MP 75 (Vicksburg Sub)
Projected completion - Fourth Quarter 2007
- 5 Meehan, MS siding – MP 12 (Meridian Sub)
Projected completion – Fourth Quarter 2007
- 6 Rankin, MS siding – MP 7 (Meridian Sub)
Projected completion – First Quarter 2008
- 7 Simsboro siding, LA – MP 111 (Vicksburg Sub)
Projected completion - Fourth Quarter 2007
- 8 Greenfield, MS siding extension – MP 84 (Meridian Sub)
Project completion – Third Quarter 2008
- 9 Double Track at Smiths, MS - MP 125 (Meridian Sub)
Project completion – Fourth Quarter 2008
- 10 Meridian, MS area improvements, speed limit increase including potential 2nd mainline extension
Projected completion – Fourth Quarter 2008
- 11 Shreveport, MS Yard Redesign
Phase II work complete – Fourth Quarter 2008
Additional work scheduled for 2008
- 12 Kilham, TX siding – MP 25 (Laredo Sub)
Projected completion – Fourth Quarter 2008
- 13 Leesville, LA siding – MP 669 (Beaumont Sub)
Projected completion – Fourth Quarter 2008
- 14 Rosenberg, TX line construction
Grading commencing in 2007.
Projected completion – late 2008/early 2009

Thanks again for providing KCS the opportunity to respond to you on the many steps we have taken and are implementing to anticipate and prepare for the fall traffic surge. We would be delighted to provide any additional details that you or the Board might require.

Sincerely,



Mike Haverty