

# KANSAS CITY SOUTHERN

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**MICHAEL R. HAVERTY**  
CHAIRMAN AND  
CHIEF EXECUTIVE OFFICER



FOUNDED 1887

September 15, 2008

The Honorable Charles D. Nottingham  
Office of the Chairman  
Surface Transportation Board  
395 E Street, S.W.  
Washington, D.C. 20423-0001

2008 SEP 22 A 9:58  
NOTTINGHAM

Dear Chairman Nottingham:

In response to your letter of July 25, 2008, I am pleased to report that The Kansas City Southern Railway Company (KCSR) is well prepared for the 2008 peak season.

KCSR was fortunate to experience only minimal effects to this summer's flooding in the Midwest. While a swing span bridge over the Mississippi River at Louisiana, Mo. had been closed, necessary repairs were made and the line was reopened without any residual damage.

KCSR has ascertained peak season demand from customer forecasts. At this time, KCSR is planning for agriculture to be up eight to 10 percent, coal to be flat to three percent up and intermodal/automotive to be up 18 to 20 percent year over year. Chemicals were expected to be up 10 to 12 percent; however, the hurricanes are likely to affect that forecast. KCSR's volumes in terms of gross ton miles have been up over 4.1 percent in the last year, so we do not anticipate that the peak season will affect our operation as dramatically as in years past.

Our performance goals for the remainder of the year are as follows:

	September	October	November	December
<b>Train Speed (mph)</b>	25	25.5	26	26
<b>Terminal Dwell (hours)</b>	22	21	20	19
<b>Cars On Line</b>	28,500	28,800	28,700	28,500
<b>T&amp;E Employees</b>	1,325	1,345	1,375	1,375

At this time, KCSR will have 1,325 train and engine employees available for service during peak season. During peak season, we will increase that count by 50 employees, who are currently in training. Even with increased volumes throughout 2008, KCSR has not experienced any significant delays due to crew shortages.

In the last year, KCSR has embarked on a different form of operations management that is focused on a repeatable, measurable methodology that is data-based, process-driven and results in analytical decision-making for more efficient and reliable service to customers. This form of management is making a difference for peak season and beyond. Our plan for improving train speed, terminal dwell and cars on line goals are all part of this methodology.

- KCSR's train speed is averaging at over 26 miles per hour in September. These speeds are made possible by the significant maintenance of way improvements on our north-south line from Kansas City, Missouri to Shreveport, Louisiana. These improvements are increasing speed, adding capacity and providing a more stable platform for peak season and beyond.
- KCSR continues to improve terminal dwell through an increased focus on on-time performance, switching productivity and right car right train right day metrics. Operational priorities were also realigned to ensure that the service plan will maximize track capacity, increase train speed and reduce terminal dwell. As a result of the key performance indicator focus, KCSR has reduced terminal dwell over two hours with an average terminal dwell year to date in 2008 of less than 21 hours, as compared to 23.1 hours in 2007.
- Cars on line metrics will experience a slight increase through October and decline throughout the holiday season. We believe we are well-equipped to handle traffic surges, as a result of locomotive availability and reliability improvements and increased operating efficiencies in dense corridors.

In addition to these metrics, KCSR continues to improve safety and mitigate risk by standardizing the operation, so employees are well-briefed and know what to expect on the job each day. And, as a result of thorough planning, KCSR has been able to recover and regain operational fluidity quickly, despite the challenges of hurricanes.

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. Our investments in the company have been shared openly with our customer base and the general public, and we will continue to highlight aspects of our commitment, such as our capital plan.

To allow sufficient capacity for 2008 peak season and 2009 anticipated volumes, KCSR has invested in the following capacity initiatives:

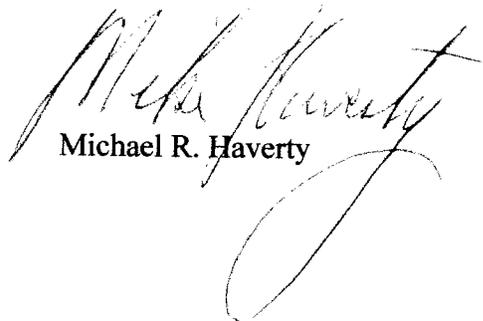
- \$100 million plus for rail, crosstie, ballast and bridge programs. The focus has been on the main coal route between Kansas City and Shreveport.
- Approximately \$20 million for siding and capacity expansion, including five siding extensions to 8,500 feet.
- A new 10,000 feet coal track at Knoche Yard in Kansas City.
- A new 14,000 feet siding and a new 8,500 feet intermodal track at the CenterPoint-KCS Intermodal Center in Kansas City.

- A new siding at Stevens on the Meridian Speedway between Shreveport and Meridian, Miss.
- Construction of 10 miles of new main line between Kendleton and Rosenberg, TX and the addition of two intermodal tracks.
- A combination of locomotive purchases, leases and overhauls has resulted in a more reliable fleet. From 2006 through 2008, the average locomotive fleet age has decreased from 17.2 to 10.9 years.

In 2009, we're planning to add a second intermodal track at the CenterPoint-KCS Intermodal Center in Kansas City, and a fourth coal main through Knoche Yard. These projects, in combination with our work on the Victoria to Rosenberg line rehabilitation will provide sufficient capacity to serve the forecasted customer needs. Additional 2009 capital projects will be focused on increasing track speed, as opposed to adding capacity.

Thanks for providing KCSR 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,



Michael R. Haverty

MRH/lfr