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June 16, 2021

The Honorable Martin J. Oberman
Chairman
Surface Transportation Board
395 E Street SW
Washington, D.C. 20423-0001



RE: KCS Pandemic Recovery Preparedness

Dear Chairman Oberman:

Thank you for your letter dated May 27, 2021, requesting information about The Kansas City Southern Railway Company's (KCS's) preparedness for meeting the recovering demand for freight rail service. I am pleased to say that KCS is staffed and equipped to meet that demand, and plans to take such additional steps as may be needed to continue to keep up with service needs.

As your letter notes, the COVID-19 pandemic caused an upheaval in economic activity. KCS's weekly volumes declined 30% from early March to early May – the swiftest drop in the Company's 134-year history. Traffic levels then climbed to above immediate pre-pandemic levels by late summer, while suffering a couple of large dips due to the holidays late in the year and the polar vortex early in 2021. These variations presented many operational challenges to KCS. Despite the COVID-19-driven volatility in our business last year, however, KCS persevered and is a stronger, more resilient and more efficient company as a result.

With respect to your question regarding employee availability, in mid-February 2020, KCS¹ had 1,382 transportation employees; 523 maintenance of way employees; and 305 employees in the Board's "maintenance of equipment and stores" classification ("mechanical" for short). Over the course of the pandemic in 2020 and 2021, KCS furloughed 286 transportation employees and 47 mechanical employees.

I am happy to say that KCS has been able to recall from furlough all train crews that were available to return to service, though about 16% of those furloughed (44 individuals) chose not to return. Of the 47 furloughed mechanical employees, 17 have returned to active status, two chose not to return, and 28 remain on furlough. This latter number is largely attributable to our more efficient use of motive power and use of newer, more reliable and productive equipment.

¹ Includes affiliated railroads covered in the KCS R-1, such as The Texas Mexican Railway Company.

As of our mid-April data reported to the Board, KCS currently stands at 1,267 transportation employees and 251 mechanical employees, both somewhat short of pre-pandemic levels. We have additional capacity available in mechanical staffing through recalling employees still on furlough, but we have exhausted our available furloughed transportation employees and are aggressively hiring and training more, targeting to exceed pre-pandemic employment in that area.

Employees generally enter our transportation ranks as conductors, and we are actively hiring and training conductors. Though our original plans for 2021 called for five conductor trainee classes, roughly every six weeks from February to August, we needed to accelerate hiring in our south Texas crew base. Fortunately, we have been able to hire a number of conductor candidates who were previously certified with other carriers, and have been able to have accelerated training programs only for those individuals, focusing on rules review and testing and on territorial familiarization to get them ready to operate on KCS.

We have added 108 new transportation employees to our ranks already this year. Nineteen percent of those are marked up and working, and more are coming on line every day.

We plan four additional hiring and training classes through the remainder of 2021, targeting to bring on board an additional 200 conductor trainees. With this added crew base, we will have the capacity to handle additional traffic volumes that we anticipate through the end of the year and into 2022. We have not as yet formulated hiring plans for 2022, but will do so as our volume outlook becomes clearer.

With respect to the equipment portion of your request, KCS looks at our locomotive and car fleet in the U.S. and Mexico as a single fleet because of our strong cross-border traffic flows, so this data is stated in those terms. Our current active locomotive fleet is 976 owned locomotives plus 68 leased locomotives. That compares to 874 active locomotives in January 2020, and a low of 670 active locomotives in June 2020. The growth in the fleet from 2020 to present is through purchases and leases sized to meet our forecast volumes. We have an additional 11 stored locomotives that are being rebuilt to return to service in the second half of 2021. We do not currently have plans to acquire additional locomotives as our forecast locomotive need for the second half of 2021 is 976 locomotives.

On the car side, our U.S.-Mexico car fleet at the end of 2020 totaled 17,096 cars, about 79% of which are KCS-owned. That compares with the fleet size at the beginning of 2020 of 17,870 cars. Our principal reductions in the fleet during 2020 were elimination of about 5% of our automotive and covered hopper fleets through lease terminations. For 2021, we are adding 100 covered hoppers per month in July, August and September, returning us to approximately the same size covered hopper fleet as the beginning of 2020. We are adding 230 boxcars to the TTX boxcar pool as well. We also plan to acquire an additional 200 coil cars in early 2022, an increase of about 19% in that car type. KCS reviews its fleet size quarterly with commercial input and forecasts, and looks forward at least a year to project what cars are needed. Currently we believe that our fleet is right-sized for our demand forecasts, but we will adjust it as needed based on quarterly reviews.

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In summary, KCS believes that we are where we need to be in terms of equipment; that we are making up as quickly as possible for reduction in transportation employee workforce due to workers who chose not to return from furlough; and that we are working to exceed pre-pandemic transportation employment numbers. Increases in our locomotive fleet already in place, and commensurate increases underway in our transportation workforce, put KCS in a good position to meet the foreseeable service needs on our system in the coming months.

As always, if you have further questions, please feel free to contact me.

Very sincerely,



Patrick J. Ottensmeyer
President & CEO
Kansas City Southern