

KANSAS CITY SOUTHERN

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April 5, 2018

The Honorable Ann Begeman
Chairman
Surface Transportation Board
395 E Street, S.W.
Washington, DC 20423-0001

The Honorable Deb Miller
Vice Chairman
Surface Transportation Board
395 E Street, S.W.
Washington, DC 20423-0001

RE: Service Status Report, The Kansas City Southern Railway Company

Dear Chairman Begeman and Vice Chairman Miller:

Thank you for your March 16 inquiry into the status and outlook for the network operations of The Kansas City Southern Railway Company (KCSR). KCSR is adequately staffed and adequately equipped to meet expected service demand in 2018, and service demand is generally in line with our internal forecasts. However, KCSR has experienced slowdowns, primarily in the Beaumont-Laredo portion of its network, since last November. While we have taken and continue to take steps to counteract those slowdowns to the extent we can, as the Board knows, the rail system is heavily interconnected. Accordingly, our success in overcoming slowdowns depends on not only our efforts but also the efforts of our connecting and host carriers to overcome issues on their networks or to find rerouting opportunities.

Below, KCSR addresses the informational items listed in the Board's request, followed by discussion of comments made in the National Grain and Feed Association (NGFA) and Automotive Alliance (Alliance) letters.

OUTLOOK FOR KCSR NETWORK RAIL OPERATIONS

Locomotive availability, including current and historic norms for number of road locomotives, serviceable stored locomotives and adequacy of locomotive fleet to meet demand

The current Kansas City Southern (KCS) U.S. and Mexico combined locomotive fleet is comprised of 1,072 locomotives, of which 65 are in storage. This represents an increase of approximately 3% in our active fleet as compared to Q1 2017. The increase in fleet includes 25 short-term leased units we assumed at the end of 2017. KCSR believes that its fleet of available locomotives is adequate to meet current demand.

KCS has no current plans to purchase additional locomotives in 2018, but we are considering a locomotive purchase option to receive additional locomotives in early 2019 in line with our volume growth outlook.

Employee resources, including (1) current T&E headcount vs. historical norms and adequacy of T&E resources to meet demand; (2) recent and historic recrew rates; (3) hiring and training plans for the remainder of 2018; and (4) adequacy of field managerial resources

1. Current T&E headcount, current furloughs & historical comparison:

Our average YTD 2018 U.S. T&E crewbase of 1,268 is up slightly versus our 2017 average count of 1,251. We have not undertaken any layoffs in recent years, and have managed seasonal volumes through temporary furloughs. KCSR does not anticipate any furloughs in the near term and we are in a normal hiring cycle as discussed in more detail below.

2. Recent train recrew rates vs. historic norms

KCSR train recrew rates are normal on the Illinois to Kansas City, Kansas City to New Orleans and Dallas to Meridian segments of the KCSR network.

Historically, KCSR renews trains more frequently between Beaumont and Laredo, TX than on the other segments of our network, due to complexities of moving through Houston. Beginning in November 2017, we began to experience an increase in renews, principally between Beaumont and Kendleton, due to delays in getting across trackage rights through the Houston area. Current recrew rates in this segment are far above normal with YTD recrew rates 58% above this time last year.

3. T&E hiring and training plans for 2018

KCSR is in a typical hiring and training mode to account for attrition and future volume outlook. In 2017, 37 conductors began and 33 completed the 22-week engineer-training course. In 2018, 18 conductors have thus far begun their 22-week engineer's training. Another engineer training class is scheduled to begin June 11 with up to 16 possible slots available.

KCSR had 16 new-hire conductors begin service in January. We had 22 new-hire conductors complete training in March. We have another 50 conductors currently in training, 29 of whom are scheduled to finish toward the end of May, and 21 more about six weeks later. We are presently recruiting for a class of 36 conductors to start in June, and we expect to continue bringing on additional new conductors every two to three months for the remainder of 2018.

4. Field managerial staff

KCSR believes that field managerial forces are adequate under current circumstances. Added managerial work needed due to renews and additional work with our connections seeking to alleviate congestion, such as seeking reroutes, is adequately staffed at this time.

Local service performance, including any specific yards or locations where performance is trending below historic norms

In its weekly service report to the Board, KCSR reports dwell time at its ten largest terminals. Of those ten, average dwell at Baton Rouge, LA and Wylie, TX has improved compared to 2017, while dwell at six others - Shreveport, LA; Artesia, MS; Heavener, OK; Jackson, MS; Kansas City, MO and Leesville, LA – has remained within historic norms.

Two of KCSR's 10 major yards, both in south Texas, are experiencing performance below historic norms due to overall industry congestion in the area:

1. Laredo, TX:

Dwell performance in 2018 at Laredo is elevated 33% as compared to fiscal year 2017. Average inventory in the yard has also increased by 15%. Increases in Laredo Yard inventory and dwell are a direct result of restrictions on KCSR's ability to move trains through the Houston area.

2. Port Arthur, TX:

Dwell in Port Arthur Yard is slightly elevated as compared to 2017. Average inventory in the yard has increased 22%, compared to 2017. Like Laredo Yard, Port Arthur Yard is dependent on fluid operations through Houston.

Demand, including expectations for 2018 service demand, ability to serve that demand, and the accuracy of internal projections vis-à-vis actual volumes to date

KCSR projects demand growth in 2018 for commodity groups that account for a majority of our overall volume. The only exception to that expectation is uncertainty concerning demand for U.S. energy products, due to a decline in coal shipments resulting from closure of a Texas utility plant that we served and uncertainty about the effects on overall frac sand shipping patterns of newly-opened West Texas frac sand mines.

KCSR is capable of meeting expected service demand, subject to a resolution of south Texas service problems. KCSR has leased enough locomotives to compensate for the south Texas service slowdowns, and is adding to its train and engine crew base. Over the past few years, KCS has also substantially increased in its grain car fleet (as detailed below in response to NGFA's letter) and KCSR's affiliate Kansas City Southern de Mexico, S.A. de C.V. (KCSM) has increased its equity share in the TTX-managed automotive equipment pool, increasing the amount of available equipment. KCS believes these investments will enable it to meet expected demand, provided that resolution of south Texas access issues is remedied in the near term.

KCSR's actual carloads for the first quarter of 2018 are tracking slightly below projections. Carloads in the agriculture & mineral and automotive business units have been negatively impacted by congestion in south Texas and problems in the supply of automotive equipment.

Communication initiatives to advise shippers on service issues

KCSR employs multiple mechanisms for keeping our customers informed of all elements of our business as it relates to their shipments. This includes informing them of expected delays.

First, KCS utilizes two Customer Solutions Centers (U.S. and Mexico) to facilitate updates and provide assistance for our shippers. Primarily serving as inbound call centers, our customer solutions analysts maintain relationships with shippers to notify them proactively via email and/or outbound calling when their service has been interrupted beyond a small delay. KCS' Customer Solutions team participates in multiple regular customer conference calls, and publishes a variety of established reports that serve to advise shippers on service status and related issues.

To complement this channel, KCS offers an online account management tool called MyKCS that is available 24/7 for self-service account management and inquiries.

KCS also manages customer communication through a process called Service Status Updates (SSUs). Some of these SSUs provide advance notice of upcoming activities that may affect velocity on portions of our network. An example of one of these notices, showing scheduled maintenance work that has the potential to delay traffic, is attached to this letter. In addition, when there is a delay that exceeds our defined threshold (24 hours for intermodal and 48 hours for carload), a communication is e-mailed to customers detailing the delay, typically including the estimated length of delay as well as a map for reference. These SSUs are posted on our website for reference should a recipient miss a particular communication.

Capacity constraints, focusing on specific locations experiencing sustained congestion from capacity constraints and actions being taken to counter congestion, including reroutes and infrastructure enhancements

To improve fluidity through Houston, KCSR has committed substantial funds to increase capacity on UP's Brownsville Subdivision, where KCSR operates via trackage rights. UP and KCSR have worked cooperatively and have spent roughly \$50.0 million over the past three years on capacity projects designed to improve fluidity on the subdivision. The majority of these projects have been completed or are scheduled to be completed in 2018, with continued investment planned in subsequent years.

In addition, over the past few years, KCSR has completed a number of capacity projects on its own lines in Texas, including a new siding at San Diego, TX; extension of sidings in south Texas; a new R&D track in Laredo Yard, and installation of CTC on both the Laredo and Rosenberg Subdivisions.

THE NGFA LETTER

The NGFA letter did not raise specific concerns with KCSR Ag products service or charges, so KCSR will respond only briefly to some of the general comments in the NGFA letter. NGFA's assertion that Class 1's are shedding resources is not correct with respect to KCSR. As shown above, KCS's locomotive fleet is larger this year than last and, since 2012, the size of the combined KCSR/KCSM grain fleet has grown 33% and shifted from leasing nearly three-fourths of the fleet to owning over 70% of the fleet. KCS is investing in grain transport capacity, not divesting.

KCSR also disagrees with NGFA's assertion that Ag shipping "recovery" plans should be required. KCSR has been trying to work with UP and BNSF on alternatives, as well as alternative routings for empties. While these alternatives have been less than satisfactory to date, 'recovery' plans that prioritize grain over all other commodities will not, in KCSR's view, solve the problem.

THE AUTOMOTIVE ALLIANCE LETTER

While KCSR is a TTX owner, it is not a member of the TTX-managed multi-level pool. However, KCSM is a member of the pool, serving multiple Alliance member auto manufacturing facilities that originate traffic destined to the U.S.

KCS has done its part to increase the capacity of the bi-level and tri-level pool. KCSM has invested in 550 bi-levels over the past two years, and over the past nine years has increased its investment in tri-levels from less than 100 to over 1000. Overall, KCSM's contribution to the bi-level and tri-level pools in the past nine years has increased 124%. Moreover, cycle times of automotive equipment on KCSM in the first portion of the year have been better even than 2017.

Nevertheless, due to certain terminating carriers' inability to adhere to TTX directives to fill KCSM car orders, KCSM's shippable ground count (finished autos awaiting loading and transport) was more than fifty percent above target as of late March. As an originating carrier, KCSM relies on the U.S. roads that terminate traffic to supply KCSM with the empty cars required to meet loading requirements. For the first three weeks of March, KCSM received approximately 50% of the bi-levels ordered.

Service problems in south Texas have compounded problems with accessing automotive equipment to move Alliance members' products. The majority of the empty autorack trains for loading on KCSM are moving through the Houston area on the terminating U.S. carriers to get to KCSM interchange points. The Houston area service problems described elsewhere in this letter affect automotive moves, as well as grain and others.

In summary, while most of the KCSR network is operating normally, KCSR is seeing industry service problems in south Texas, affecting automotive, grain and other types of traffic. KCSR is applying resources and is adequately equipped to meet expected demand, but a continued lack of available reroutes or lack of improvement in the circumstances that are impairing access through Houston will impede our recovery efforts.

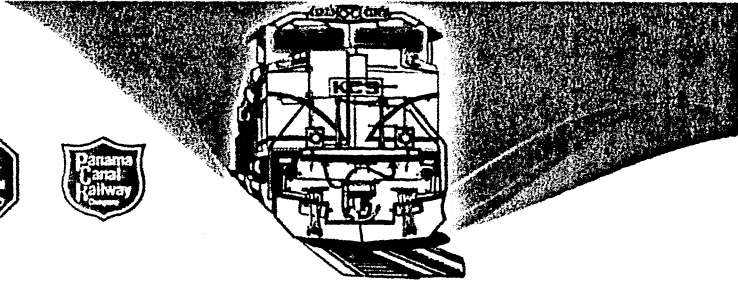
Should you have further questions, please do not hesitate to contact me.

Sincerely,



Patrick J. Ottensmeyer
President & CEO
Kansas City Southern

Enclosure



March 13, 2018 / 13 de marzo de 2018

KCS places a high priority on ensuring our lines are maintained and operating at their optimal performance and Maintenance of Way work is critical to achieving this. Our goal is to minimize any customer inconveniences the work may cause.

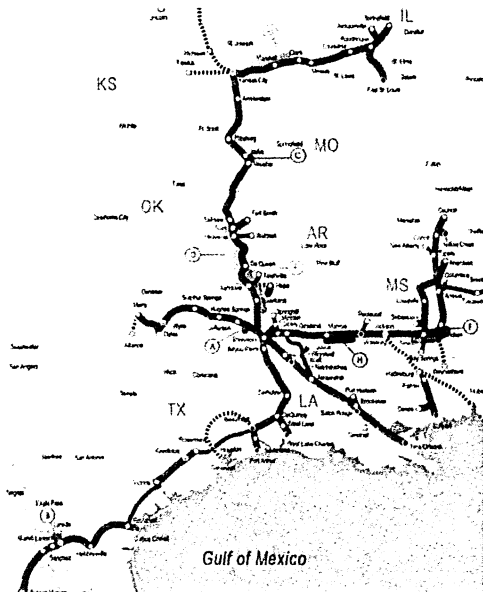
Beginning on April 3, 2018, Kansas City Southern will begin performing maintenance of way improvements on the following areas within the KCSR network.

Greenville Subdivision			
A	June 26, 2018	July 3, 2018	MP 40.4 just east of Jefferson, TX
Laredo Subdivision			
B	June 26, 2018	July 3, 2018	Laredo Yard
Heavener Subdivision			
C	May 15, 2018	July 3, 2018	Saginaw, MO (162.5 - 166.9)
Shreveport Subdivision			
D	April 3, 2018	May 8, 2018	Heavener, OK to DeQueen, AR (338 - 433)
E	May 1, 2018	May 8, 2018	Vandervoort, AR to South Texarkana, TX (400-490)
Meridian Subdivision			
F	May 15, 2018	June 5, 2018	Meridian, MS to Morton, MS (vm0-61)
Mexico Subdivision			
G	June 26, 2018	July 3, 2018	Mayview, MO to Armstrong, MO (439-372)
Vicksburg Subdivision			
H	June 12, 2018	June 19, 2018	Delhi, LA & Rayville, LA (30.4 - 58)

There is potential for delays during this time. Our customer service team will be monitoring the impact this maintenance may have on our customers' schedules and will notify those with potential significant impacts.

Should you have any questions related to potential delays or these maintenance efforts, please do not hesitate to contact our [KCSR Customer Solutions](#) team. KCSR Customer Solutions analysts are monitoring the situation and can provide additional information specific to your shipment.

We apologize for any inconvenience and we appreciate your patience as we improve our rails.



Contact KCS

U.S. Customer Solutions:
800-468-6527 (800-GO-TO-KCS)
customer_solutions@kcsouthern.com

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Contacto KCSM

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Enlaces

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