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September 30, 2004

BY HAND DELIVERY

The Honorable Vernon A. Williams
Secretary
Surface Transportation Board
1925 K Street, NW
Washington, DC 20423-0001

ENTERED
Office of Proceedings

SEP 30 2004

Part of
Public Record

Re: *Kansas City Southern - Control - The Kansas City Southern Railway Company, Gateway Eastern Railway Company, And The Texas Mexican Railway Company; Finance Docket No. 34342*
Environmental Comment

Dear Secretary Williams:

Kansas City Southern ("KCS") files this Comment on Environmental Issues, in compliance with the Surface Transportation Board's ("Board's") order issued in this matter on August 31, 2004.¹ This comment provides an update on positive developments over the past year regarding the sole environmental issue raised in filings with the Board; *i.e.*, the effect of the transaction on auto and bus traffic in downtown Laredo, TX.

As noted in KCS's September 2, 2003 Response to Comments, Protests, and Requests for Conditions, and Rebuttal in Support of Application, no party has challenged KCS's assertion that its proposed control of The Texas Mexican Railway Company ("Tex Mex") is categorically exempt from environmental review under the Board's regulations and no party has challenged the Board's statement in Decision No. 2 that the information provided by KCS was "sufficient to create a presumption that this transaction is covered by a categorical exclusion." The Texas Commission on Environmental Quality filed a brief letter and apparently agreed with the Board's initial finding as they offered no comment on the Control Application and did not take issue with those findings. While the U.S. Department of Transportation ("DOT") made a brief comment

¹ KCS is working separately with the Federal Railroad Administration ("FRA") on the Safety Integration Plan ("SIP") for the Control Application, and has filed an updated draft SIP with FRA today. Therefore, KCS here addresses only the non-SIP-related issues.

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regarding possible congestion concerns with respect to the effect of additional carloads of Tex Mex traffic on car and bus traffic in downtown Laredo, TX, they likewise did not dispute the presumption that the transaction was categorically exempt. Accordingly, there is no need for further environmental review and the Board should treat the transaction as categorically exempt.

With respect to DOT's concerns, KCS has previously shown that the relatively minor rail traffic increases projected to result from the transaction – in the nature of 17 carloads per day – will not add more trains on the Tex Mex. Indeed, perhaps as much as one-third of the total projected traffic increases consists of traffic that already moves through Laredo and would merely change routings. *See* Control Application at 223. While some parties have raised questions as to whether these diversions would occur, the bottom line is that, even if they do, these diversions alone would not result in a significant increase in traffic at Laredo. The bottom line is that the traffic increases projected in the Control Application will simply not result in additional trains or change the categorical exclusion status of the transaction.

KCS and Tex Mex are committed to ensuring that there is minimal impact on car and bus traffic in the City of Laredo and have worked over the past few years with TFM, S.A. de C.V. (“TFM”) and Union Pacific Railroad Company (“UP”) to improve the operating efficiency of the Laredo Bridge crossing and reduce congestion in the City of Laredo. Tex Mex, for example, has taken several steps in recent years to improve the movement of trains in downtown Laredo. Among these were focusing a significant portion of its 2001 track rehabilitation expenditures in Laredo, and constructing the new building that houses the VACIS^{®2} operator at the Laredo Bridge. Both of these actions facilitated movement of trains through the City and reduced traffic problems. Similarly, installation of the Management Control System on Tex Mex this past Spring has facilitated Mexican Customs' clearance of southbound Tex Mex trains by improving the quality of electronic data interchanged with Mexican Customs. This again has helped to reduce the possibility of adverse impacts on car and bus traffic in the City of Laredo.³

Tex Mex, TFM and UP have also cooperated on a variety of steps to increase operating efficiency of the Laredo Bridge and to reduce blocked streets in Laredo. These steps have included better coordination with the Customs & Border Protection Bureau and their use of the VACIS[®] system, increasing the speed and efficiency of required inspections of northbound trains; greater coordination of bridge operations through scheduled daily conference calls and other means to avoid holding southbound trains in downtown Laredo; and arranging with the

² VACIS[®] - Vehicle and Cargo Inspection System.

³ In addition, Tex Mex is seeking a Railroad Rehabilitation and Improvement Financing (“RRIF”) loan from FRA to allow rehabilitation of Tex Mex track. If the RRIF loan is approved, the track work financed by the loan will improve Tex Mex's on-time performance, further reducing possible congestion in Laredo from trains that miss their scheduled window for crossing the bridge.

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Mexican government to allow southbound run-through trains to move beyond the border of Mexico without the need to stop just beyond the border for another brake inspection. Recently, TFM and Tex Mex have supported a petition by UP which, if approved by FRA, would allow trains destined to UP that have been inspected by TFM in accord with FRA standards to move through Laredo without UP having to re-perform the inspections at its yard in downtown Laredo. UP's petition to FRA stresses that the relief requested would alleviate a number of blocked crossings in Laredo. Tex Mex, with the full support of KCS, intends to seek similar relief for TFM trains destined to Tex Mex.

KCS and Tex Mex understand DOT's concerns and as shown by the efforts described above, Tex Mex and KCS, by themselves and in conjunction with TFM and UP, have made significant strides in the past few years to reduce obstruction of vehicular traffic in Laredo. The proposed transaction will not change this dedication to efficiency. Instead, KCS anticipates continuing to look for win-win solutions like these when it is authorized to control Tex Mex.

Sincerely,



William A. Mullins

cc: Parties of Record