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November 4, 2004

**BY HAND DELIVERY**

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

EMERGENCY  
Office of Proceedings

NOV 4 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*  
Final SIP and Implementation Plan

Dear Secretary Williams:

I am pleased to enclose herewith on behalf of Kansas City Southern ("KCS") the original and twenty-six copies of the final Safety Integration Plan and the corresponding Implementation Plan in connection with the captioned proceeding. KCS reached agreement with the Federal Railroad Administration on the final terms of these documents earlier this week. The attached documents reflect the agreed-upon terms.

Please acknowledge receipt and filing of these materials by appropriate notation on the eleventh copy of each enclosed for that purpose. By my signature below, I certify that a copy of each of the attached documents is being served today upon all parties of record to this proceeding by first class mail or by other, more expeditious means.

Sincerely,

William A. Mullins

cc: Parties of Record  
Federal Railroad Administration c/o  
Edward Pritchard, Ronald Newman and  
G. Joseph King, Esquire  
STB Section of Environmental Analysis

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**BEFORE THE  
SURFACE TRANSPORTATION BOARD**

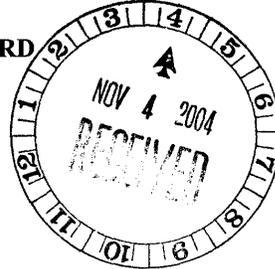
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**STB Finance Docket No. 34342**  
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**KANSAS CITY SOUTHERN**

**-- CONTROL --**

**THE KANSAS CITY SOUTHERN RAILWAY COMPANY,  
GATEWAY EASTERN RAILWAY COMPANY,  
and  
THE TEXAS MEXICAN RAILWAY COMPANY**

\_\_\_\_\_  
**APPLICANT'S SAFETY INTEGRATION PLAN (SIP)**  
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**November 4, 2004**

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## I. EXECUTIVE SUMMARY

On May 14, 2003, Kansas City Southern (“KCS”), a holding company,<sup>1</sup> filed an application with the Surface Transportation Board (“STB”) for approval of a proposed transaction by which KCS would acquire control of The Texas Mexican Railway Company (“Tex Mex”) while continuing in control of The Kansas City Southern Railway Company (“KCSR”) and its wholly-owned subsidiary Gateway Eastern Railway Company<sup>2</sup> (the “Transaction”). This Safety Integration Plan (“SIP”), developed in consultation with the Federal Railroad Administration (“FRA”), describes how KCSR and Tex Mex plan to ensure that the Transaction is implemented safely and in full compliance with all applicable laws and regulations. The SIP follows FRA’s “Safety Implementation Guidelines.” In developing this SIP, KCSR and Tex Mex have applied lessons learned from other recent railroad transactions.

Subsequent to KCS’s investment in Tex Mex in 1995, the two railroads have steadily improved the coordination of their operations and leveraged their strengths. Over the last three years, KCSR and Tex Mex have achieved substantial operational coordination to create operating efficiencies and to provide customers with better service. As a result of this existing operational coordination, the proposed Transaction will not disrupt operational safety.

The long-standing working relationship between KCSR and Tex Mex, their substantial coordination of functions and the end-to-end nature of the Transaction will assure that the Transaction does not compromise safety. In fact, the Transaction will facilitate improvements to infrastructure, more efficient use of resources and enhanced coordination.

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<sup>1</sup> Kansas City Southern Industries, Inc., holding company parent and owner of 100% of the voting stock of KCSR, changed its name in 2002 from Kansas City Southern Industries, Inc., to simply Kansas City Southern.

<sup>2</sup> As used in Sections I, III and IV herein, the abbreviation KCSR refers to both The Kansas City Southern Railway Company and Gateway Eastern Railway Company (“GWER”). GWER is a Class III rail carrier that owns and operates approximately seventeen miles of rail lines between East Alton, Illinois and East St. Louis, Illinois. In addition, GWER operates via trackage rights over 5 miles of Terminal Railroad Association of St. Louis (“TRRA”) track between WR Tower and Willows Tower, Illinois, and 11.07 miles of The Alton and Southern Railway Company’s track between Lenox Tower and Rose Lake, Illinois. GWER also has operating rights over portions of the former Gateway Western Railway Company (“GWWR”) (merged into KCSR in 2001) between East St. Louis and Wann, Illinois. GWER operates one round trip train five days per week between East Alton and East St. Louis, Illinois (CSX’s Rose Lake Yard). Extra trains are operated on an “as needed” basis. GWER began operations in 1994. The Kansas City Southern Railway Company and its wholly-owned subsidiary GWER have identical safety rules and operating practices.

Crew calling, dispatching and customer support for both railways is already consolidated at KCSR's System Transportation Center ("STC") in Shreveport, Louisiana. KCSR and Tex Mex use identical safety and operating rulebooks, and KCSR supports much of the training for both craft and management employees on Tex Mex. Most safety programs and policies on KCSR and Tex Mex are identical, and the cultures of the railways are fully compatible.

This is an end-to-end Transaction, with no overlapping lines, no duplication of facilities and only negligible traffic increases in the next three years. Operating practices and safety work practices will not be compromised as a result of this Transaction, but will continue to evolve as safer and more efficient approaches are introduced.

The Transaction is a logical outcome of the strong working relationship of KCSR and Tex Mex. The Transaction will be handled in line with the joint KCSR and Tex Mex Safety Vision, namely the vision that KCSR / Tex Mex will be recognized as the safest railways in North America. We believe this change of control of Tex Mex supports the attainment of this vision.

## II. INTRODUCTION

### History

KCSR and Tex Mex have long, colorful histories in the rail industry and in the formation of the United States of America. Both railways offer outstanding employees, pride in their operations, and a commitment to support north-south trade between Canada, the U.S. and Mexico.

KCSR's origins date back to 1887, when Arthur E. Stilwell set out to build a railroad from the U.S. heartland directly south to the Gulf of Mexico. Stilwell achieved his goal by linking Kansas City, Missouri, with Port Arthur, Texas. In the 1930's, KCSR extended its rail network by adding a route through Louisiana. In 1993, KCSR acquired the MidSouth system of railroads. The MidSouth acquisition gave KCSR an east-west route, connecting Dallas, Texas and Meridian, Mississippi.

In 1995, Kansas City Southern Industries, Inc., made strategic decisions to build upon Arthur Stilwell's 19<sup>th</sup> century vision, purchasing partial ownership in Tex Mex and in Transportacion Ferroviaria Mexicana, S.A. de C.V. ("TFM")<sup>3</sup> in Mexico. In 1997, KCSR acquired control of GWWR (which operated between Kansas City, Missouri and East St. Louis and Springfield, Illinois)<sup>4</sup> and its wholly-owned subsidiary, GWER (operating in the East St. Louis area). Through marketing agreements with other Class I railways and coordinated operations with Tex Mex and TFM, the NAFTA Railway system was formed.

KCSR has 3,130 track miles in 10 central and southeastern states. KCSR includes over 2,900 employees, 513 active locomotives, 13,561 freight cars, and revenues of approximately \$581 million per year.

Tex Mex dates back to 1856, when construction began on its 157-mile line between Laredo and Corpus Christi, Texas. Today, Tex Mex operates that core stretch of track and has extended its network an additional approximately 400 miles through trackage rights over Union Pacific Railroad Company ("UP") and the properties of the former Houston Belt & Terminal Railway Company ("HBT") in Texas. Tex Mex is one of only two carriers providing direct access to the primary rail gateway at Laredo, where more than 50% of U.S.-Mexico rail traffic crosses the border.

Tex Mex operates approximately 560 track miles (including trackage rights), has approximately 221 employees, 58 locomotives and 950 freight cars. Primary service locations include Corpus Christi, Houston, Beaumont, and Laredo, Texas.

### Engineering Department

KCSR has a robust infrastructure and provides expertise, programs, policies and equipment to Tex Mex that historically have not been available to Tex Mex due to its

<sup>3</sup> Subsequently renamed TFM, S.A. de C.V.

<sup>4</sup> GWWR was merged into KCSR in 2001. GWER remains a separate company.

smaller size. KCSR's engineering department provides support and assistance to Tex Mex in the maintenance and upgrade of track, bridge and signal systems. KCSR's track inspection standards have been implemented at Tex Mex, and a project is underway to upgrade Tex Mex track. KCSR's Engineering Department is providing the inspection, planning and project management for the Tex Mex upgrade project. The KCSR Engineering Department (Maintenance of Way, Signal and Bridge and Building) includes approximately 460 agreement and 72 management employees.

#### Mechanical Department

KCSR and Tex Mex's mechanical departments work together in a nearly seamless manner. There are 15 mechanical department employees on Tex Mex, and nearly all work as carmen. The KCSR Mechanical Department includes approximately 309 employees in both the car and locomotive area. KCSR's size and expertise complements Tex Mex's dedicated personnel.

On Tex Mex, non-transportation employees perform train testing and inspect equipment at Corpus Christi and at Serrano Yard near Laredo. These individuals have received appropriate training and testing on these responsibilities. It is expected that non-transportation employees will continue to perform the train testing and inspection following the Transaction.

Transportation employees perform inspections, per 49 C.F.R. Part 215, Appendix D and Part 232, Subparts C and E, at other locations on Tex Mex. These individuals have been trained in their inspection duties and have received training as required by 49 C.F.R. Part 232 Subpart C as of April 1, 2004.

#### Transportation Department

KCSR has approximately 1,370 engineers and trainmen who perform road and yard service. All employees receive periodic training and are regularly tested as described later in this document. The Transportation Department's leadership consists of experienced railroaders.

Tex Mex has 115 engineers and conductors who perform road and yard service. They receive identical training to that offered at KCSR. In fact, Tex Mex's classroom training for new conductors is performed by KCSR instructors at Shreveport or Laredo. Engineer promotion classroom training is also performed in Shreveport. All Tex Mex and KCSR transportation employees follow the same rule books, and they are all contacted by the same crew callers. Further, all KCSR and Tex Mex trains are dispatched through the KCSR STC in Shreveport.

Essentially the only difference in the training, rules and qualifications of transportation employees at KCSR and Tex Mex prior to this year was that Tex Mex transportation employees had not yet been trained on the Management Control System ("MCS"), a state-of-the-art computer system developed by KCSR to better manage shipments and provide more timely information regarding individual shipments. However, such training was provided to Tex Mex employees and MCS was implemented on Tex Mex as of April

1, 2004. The benefits of that implementation are discussed in more depth later in this SIP.

KCSR and Tex Mex Safety Principles specify that "All employees are responsible to know the rules and safe job procedures for the work they perform." One FRA Regional office last year expressed concern that transportation employees were not familiar enough with FRA and KCSR rules regarding equipment inspections. KCSR finds any such unfamiliarity unacceptable, and took the following actions in 2003 and 2004 to address this perceived shortcoming:

- Rules training and testing for transportation employees is now required annually, rather than in alternating years as allowed by FRA's rules. In 2003, over 1,200 KCSR transportation employees received General Code of Operating Rules ("GCOR") training. All KCSR transportation employees will receive continued education in 2004 on the GCOR, either through Computer-Based Training or through in-person sessions, or both.
- Issuing new general orders to amend KCSR's rules as directed by FRA.
- A full time General Director level position has been established in charge of Rules and Operations Testing to monitor and support improved rules compliance. This individual teaches supervisors how to perform effective testing, provides written evaluations of their performance, performs testing of employees, maintains an extensive operations testing database, and targets certain work practices or rules for special focus. The director also coaches supervisors on application of both operating and safety rules. This approach has been highly effective in enhancing knowledge of rules among supervisors and union employees. In 2003, 42,000+ operations tests were performed, a 30% increase over 2002. Presently KCSR's 2004 testing has increased by over 10% as compared to 2003.
- Remedial training (Employee Development Training) has also been provided across the KCSR system for any employee who does not demonstrate satisfactory rules knowledge and compliance during operational testing.
- The General Director of Rules and Testing meets with all officers in problem areas to review, and when necessary, provide hands-on training. This training includes initial terminal inspections and mechanical inspections.
- In April 2004, KCSR reintroduced the Rule of the Day practice, whereby one GCOR rule and one STAR Safety Rulebook rule are featured each day via department circulars, bulletin boards, and/or as introductions for safety briefings. Each transportation department employee is called on to be able to recite both rules of the day upon request.

These practices will also be applied on Tex Mex as needed, based on performance evaluations. Recently, the same FRA Region that had previously criticized KCSR's inspection practices conducted an extensive new inspection of KCSR and awarded KCSR with a plaque in recognition of "significant contributions and quick actions to eliminate long-standing safety concerns."

#### Responsible Care® Participation

KCSR became an American Chemistry Council – Responsible Care® Partner company in March 1999. KCSR's Responsible Care® commitment is consistent with its safety vision to become the safest railway in North America. KCSR is dedicated to working toward zero accidents, zero injuries and zero harm to the environment, and is committed to meeting the principles, practices and obligations associated with membership and meeting the elements that make Responsible Care® work.

Through the change of control process, KCSR will support Tex Mex in meeting the high standards defined by Responsible Care®. DuPont has also offered to support Tex Mex in achieving this performance. KCSR and Tex Mex will strive to fully implement the Responsible Care® Partner program on Tex Mex by December 2004.

#### E.H. Harriman Recognition

KCSR and Tex Mex both come from traditions of safety excellence. Over the past seven years, KCSR has received numerous E.H. Harriman Memorial Safety Awards, including Bronze in 1996, 1997, 1998, 2002 2003, Silver in 1999 and Gold in 2000 and 2001. Tex Mex received a Gold award in 1996, Bronze in 1997 and Silver in 1998. In 2003, Tex Mex received a certificate of commendation for continuous improvement in safety performance. Winning these E.H. Harriman recognitions demonstrates a committed safety culture at both railways.

Coordinated training and operations led the two railways to the common safety vision and principles stated below:

#### KCSR/Tex Mex Safety Vision

The Kansas City Southern Railway and Texas Mexican Railway's vision is to be recognized as the safest railways in North America. This will be achieved through:

- A culture where safety is a value, not a priority subject to change.
- An environment where employees look out for one another and actively participate in improving the safety of all work processes.
- A culture rooted in mutual trust and respect, where employees are encouraged to identify safety concerns and help in their resolution.
- An environment where employees are empowered, and are joint owners of the safety process.

#### KCSR/Tex Mex Safety Principles

1. We will provide the training, tools, and resources required to support a safe and clean workplace.
2. All employees are responsible for their own safety and that of co-workers.
3. Employees are empowered and expected to discontinue any activity that involves the use of unsafe practices or tools.

4. All employees are responsible to know the rules and safe job procedures for the work they perform.

The safety vision and safety principles are driving factors in raising safety standards. Involvement of union employees in the creation of the safety vision and safety principles lends credibility to these statements and supports empowerment. As the full value and importance of the safety vision and safety principles are further ingrained into the culture, it is expected that empowerment will continue to grow and safety standards will rise even higher.

#### Safety Committees

Safety committees are the backbone of the KCSR safety culture. Craft and management employees have worked together to develop and implement the Safety Through Awareness and Responsibility ("STAR") Safety Rule book, emergency plans at KCSR terminals, and processes to improve housekeeping, work practices, customer safety and awareness. Safety committees provide strong safety leadership through role modeling, coaching of peers and through implementing education and recognition processes. Safety committees have been in place for several years throughout the KCSR system, and dedicated craft and management safety leaders have helped KCSR achieve one of the most safety-conscious cultures in the rail industry.

Tex Mex has established safety committees that have offered strong support in raising safety standards. The committees are made up of individuals committed to reducing risk, teaching others and creating a safer place to work. The Tex Mex committees are a vital part of safety and, with additional training, will develop into even stronger proponents for safety.

KCSR has developed leadership courses for safety committees, as well as a Safety Committee Leadership Guide. The training and guide will be offered to Tex Mex safety committees and will continue to be supported by management. Tex Mex safety committee members will be invited to regional safety meetings, so that best practices can be shared and energies can be focused on those activities that are most effective in reducing the risk of injuries and accidents. Through the integration process, KCSR and Tex Mex safety committees will continue to grow and become an even more important part of the culture.

#### SACP

In March 2004, KCSR management, KCSR labor and the Federal Railroad Administration met in Kansas City, Missouri, to establish and sign the charter for KCSR's Safety Assurance and Compliance Program Oversight Committee ("SACP"). The program provides a structure for continued sharing of advice and recommendations for dealing with safety issues. Subsequent committee meetings were held in Shreveport, Louisiana on May 18-19, and in St. Louis, Missouri on August 18-19, 2004, bringing together representatives of the transportation, mechanical and engineering departments, senior union representatives from all crafts, and representatives from FRA. Future meetings have been scheduled on a quarterly basis.

#### Train Accident Prevention

The prevention of train accidents at KCSR has been an area of intense focus over the last several years. Derailment prevention training, infrastructure improvements, root-cause analysis, goal setting and communication of performance has led to improved results. Many KCSR and Tex Mex managers completed derailment prevention training in 2002. Through the knowledge they have gained, better-targeted corrective actions are being put in place to reduce the risk of train accidents.

In 2004 KCSR implemented a Train Accident Prevention Team (TAP Team) comprised of representatives from each of the operating areas. The purpose of the team is to utilize problem solving techniques to identify root causes of accidents and develop and implement corrective actions to prevent future occurrences. Currently, accidents occurring on Tex Mex are also being addressed by the TAP Team.

Train accident prevention practices are essentially the same on KCSR and Tex Mex, so no significant changes to the process are anticipated as part of the integration.

#### Security

The advent of the September 11<sup>th</sup> terrorist acts strengthened the commitment of KCSR and Tex Mex to enhance operational security. KCSR participated in the development of the comprehensive security plan assembled through the Association of American Railroads ("AAR"). KCSR and Tex Mex evaluated vulnerabilities on their respective properties and each has taken action to enhance security. The changes are in line with recommendations in the AAR Railroad Security Plan. KCSR and Tex Mex-specific security plans were developed. (For additional information, see Section III.M below.)

KCSR and Tex Mex have both completed HM-232 hazardous materials ("hazmat") security training requirements for all hazmat employees, in accordance with the regulations. This training builds from past security standards and reinforces the commitment of KCSR and Tex Mex to continually raise security standards.

KCSR presently has seven law enforcement officers on staff and Tex Mex has three officers. These officers are augmented by contracted security personnel, as needed, and as potential threats arise. The law enforcement programs are essentially the same and no changes to the programs are anticipated.

#### Operations Testing and Auditing

KCSR and Tex Mex both have operations testing programs in place, as required by the FRA. KCSR has a General Director-Rules and Testing, who offers extensive support to officers performing the testing. In particular, he provides written and verbal feedback to supervisors on their performance, and keeps senior field managers aware of their progress. He also monitors and analyzes the operations testing database to spot trends and to help ensure repeated rule and work practice violations are properly addressed and eliminated.

Tex Mex has an operations testing program in place, and recently Tex Mex supervisors were provided additional training by KCSR's General Director-Rules and Testing. Through this training, through interaction with FRA, and with support from more senior supervisors, the operations testing process continues to improve on Tex Mex.

As part of the integration, Tex Mex and KCSR will share a common database to track supervisor and employee operations testing performance. The KCSR General Director-Rules and Testing will also provide coaching on both KCSR and Tex Mex to help supervisors enhance their abilities. He will also facilitate cross-craft testing to improve teamwork between supervisors. Through this safety leadership, the safety standards of KCSR and Tex Mex will continue to improve.

#### Government Reporting

KCSR's government reporting office is located in Shreveport and has demonstrated exceptional performance. The reporting office has received strong praise from the FRA Region 5 investigators for its performance. In the past, FRA Region 5 personnel have told KCSR that it does one of the best jobs of performing the reporting function in the rail industry.

In July 2001, KCSR assumed responsibility for the tracking and reporting of personal injuries, grade crossing incidents, derailments and similar incidents on Tex Mex. This transfer of reporting duties to the KCSR Shreveport office will prevent any disruption in the reporting process as part of the integration. The in-depth knowledge possessed by KCSR's reporting office personnel will offer improved accuracy of records and reporting.

#### Management Control System

*KCSR:* MCS, a computerized shipment tracking and management system, was implemented on KCSR during 2002. MCS is designed to enhance tracking of rail cars and to enhance planning to facilitate timely movement of traffic. From a safety perspective, MCS helps ensure that hazmat cars are properly placed in trains. It also facilitates improved on-time performance, which in turn assists employees with their lifestyle planning and helps ensure they are well rested prior to reporting for duty. It further facilitates sharing of information.

*Tex Mex:* MCS was implemented on Tex Mex on April 1, 2004, pursuant to a contract between KCSR and Tex Mex. Thanks to thorough preparation and training, and to support by KCSR personnel, the transition to MCS went smoothly.

#### Federal Railroad Administration Working Relationship

KCSR and Tex Mex have good working relationships with FRA. Although FRA has from time to time taken exceptions to KCSR's practices, KCSR has consistently responded in a vigorous manner to deal with the concerns and to raise its standards where indicated. In fact, one Region 5 inspector regularly identifies the KCSR dispatching office as a model for other regional and short-line railways to follow. KCSR has also received strong praise for its work with union employees to include them in meaningful ways in the safety process. The meaningful involvement of union employees to develop

the STAR safety rule book, the Safety Committee Leadership Guide and union involvement in System Safety and Environmental Assessments are all part of this cooperative approach that is consistent with SACP.

KCSR has been an active member of FRA's Rail Safety Advisory Council ("RSAC") and has participated in several subcommittees in support of the rule-making process.

KCSR is a member of North American Rail Alertness Partnership ("NARAP"), and has completed or planned several alertness-related initiatives.

Tex Mex has worked closely with FRA in many safety-related areas. This strong working relationship has helped Tex Mex raise safety standards. Also, the SACP process involves continuing participation by FRA personnel. Thus, it is expected that through further integration of their operations, KCSR and Tex Mex will continue their constructive working relationships with FRA and will achieve even higher standards of safety. KCSR and Tex Mex view FRA as a partner and not just a regulatory agency.

### **III. SAFETY INTEGRATION PLAN**

As stated in Section I, KCSR and Tex Mex already are substantially integrated on an operational level. Crew calling, dispatching and some customer support for both railways is already consolidated at KCSR's STC in Shreveport, Louisiana. KCSR and Tex Mex's safety and operating rulebooks are the same, and KCSR provides or supports much of the training for both craft and management employees on Tex Mex. Most safety programs and policies on KCSR and Tex Mex are identical, and the cultures of the railways are fully compatible. Accordingly, significant steps that might have to be taken to integrate previously-unaffiliated railroads have already been taken by KCSR and Tex Mex due to their close affiliation for nearly a decade.<sup>5</sup> This significantly reduces the work remaining to be done to safely integrate the two railroads. KCSR and Tex Mex, however, recognize the need to proceed thoughtfully and thoroughly with the steps outlined below which will fulfill their planned integration under common control.

#### **A. Corporate culture**

##### **1. Identify and describe differences for each safety-related area between the corporate cultures of the railroads involved in the transaction;**

The following bullet points describe some of the key characteristics of the KCSR and Tex Mex cultures.

#### **KCSR Culture**

- Safety is a value, not a priority subject to change. Employees believe in the safety vision.
- Leadership is very diverse in that many are experienced railroad professionals with extensive experience on other railways.
- Pride in railway history.
- People feel empowered to make safe decisions without fear of reprisal for lost production.
- Generally good relations with unions.
- Significant classroom and some on-the-job training.

#### **Tex Mex Culture**

- Safety is a value.
- Management demonstrates excellence in working with many government organizations.
- Nearly all members of the management team are bilingual.
- Pride in railway history.

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<sup>5</sup> Tex Mex and KCSR are not merging, and each will continue to be headquartered at its current headquarters location. It is not planned that any current Tex Mex management, supervisor or employee positions will be eliminated as a result of KCS's acquisition of control of Tex Mex following the STB authorization of the transaction.

- Generally good relations with unions; craft and management employees generally have strong working relationships.
- Significant on-the-job training.

**2. Describe how these cultures lead to different practices governing rail operations;**

The integration of many systems and processes at KCSR and Tex Mex over the last two years has resulted in nearly identical expectations and requirements. The extensive interaction and good working relationship will allow integrating these railroads with little or no disruption of service, and no disruption of safety performance.

The cultural practices that appear to be different and actions to be taken to overcome differences:

- Tex Mex supervisors sometimes speak in Spanish to facilitate clarity of communication with some of their employees whose primary language is Spanish. Fewer KCSR supervisors speak Spanish, because Spanish is the primary language for a smaller portion of the hiring pool in the 10-state area where KCSR operates than it is in Texas, where Tex Mex operates. To the extent that additional management hiring is needed on Tex Mex, bilingual fluency will continue to be an important asset for candidates. Although there has been no apparent need for KCSR mechanical personnel to speak or read Spanish, should such a need arise, Tex Mex supervisors are readily available by telephone or can be faxed information in the unlikely event translation assistance is needed. In addition, a former Tex Mex dispatcher who is bilingual now is employed by KCSR in Shreveport.
- Tex Mex employees are used to doing a great job with limited resources. This can lead to some risks that are unacceptable and a tendency by some employees not to empower themselves as expected by the safety vision. KCSR employees have generally worked in an environment where greater resources are available. This has supported greater empowerment by employees. Through the integration of KCSR and Tex Mex, greater resources will be available and empowerment of Tex Mex employees will be enhanced. Also, classroom training will receive a greater emphasis to supplement on-the-job training.

**3. Describe, in step-by-step measures, the integration of these corporate cultures and the manner in which it will produce a system of “best practices” when the Transaction is implemented.**

Best practices have already been implemented for nearly every safety-related process. Through training, sharing and discussions, no additional measures are necessary to develop a new system of best practices.

**B. Training**

**Each applicant shall identify classroom and field courses, lectures, tests, and other educational or instructional forums designed to**

**ensure the proficiency, qualification, and familiarity with the operating rules and operating tasks of territory assigned of the following employees, either when these employees are assigned to a new territory or the operating rules on a given territory are changed:**

**1. Employees who perform train and engine service;**

Transportation

*KCSR*: Formal classroom, written examinations and informal training and reviews are conducted on an ongoing basis to ensure safe operations and rules compliance.

Training classes include:

- Operating Rules
- Safety Rules Training
- Fatigue/Alertness Management
- Back Injury Prevention
- HM232 – HazMat Security
- Hostler Training
- New Conductor Training & Testing
- Engineer Training and Testing
- Others

All promoted engineers receive engineer recertification training and examination in compliance with Federal engineer certification regulations. This includes five weeks of classroom training and 20 weeks of training with an experienced engineer. (*See Section C for more details.*)

All new conductors receive four weeks of classroom training and eight weeks of field training. This training is currently provided at the Shreveport training center or in Laredo. (*See Section C for more details.*)

Safety marathons, operations testing, peer coaching and computer-based training (“CBT”) all provide learning opportunities for transportation employees. Testing and observations continue to be an integral part of these programs.

*Tex Mex*: After STB approval in 1996 of Tex Mex’s trackage rights over UP and the HBT, Tex Mex personnel underwent extensive training designed to familiarize and train the Tex Mex transportation employees for enhancement of the safe and efficient rail operations over a major Class 1 railroad. This training included classroom lectures, discussions, quizzes and written examinations over all GCOR. Special emphasis was given to main track authority and large terminal operations. Tex Mex supervisors were given qualification experience and familiarization of the physical characteristics and operations over all trackage rights. All transportation employees then received field training and instructions on the physical characteristics and operations over these new territories. Additional tests, including field efficiency tests and observations, were conducted frequently to ensure continued safe operations and rules compliance.

### Change in Method of Operations

In early 2002, the decision was made to change the method of operation on Tex Mex from Track Warrant Control to Direct Train Control, with an effective date of June 2002. In April and May 2002, comprehensive classroom training and examinations were given to all train and enginemen covering Direct Train Control operations in preparation for this change. In addition, classes covering GCOR and hazmat rules and regulations were given as part of the ongoing training program. Written examinations were administered for all subjects. This change caused no incidents on Tex Mex.

As part of the ongoing training process, Tex Mex transportation employees will be offered a more formal back injury prevention program and fatigue alertness training. All other additional training will be incorporated at KCSR and Tex Mex as it becomes available.

### **2. Employees who inspect and maintain track and bridges;**

All KCSR bridge inspectors have successfully completed formal bridge inspection training as provided by AAR. The inspectors are all very experienced in the bridge inspection process and requirements. KCSR and Tex Mex have contracted with Osmose Railroad Services, Inc. ("Osmose") to supplement the normal bridge inspections and create an improved database process for maintaining bridge records. KCSR's and Tex Mex's programs are identical.

All track inspectors (Track Supervisors, Roadmasters and Division Engineers) on KCSR and Tex Mex have been trained on FRA track inspection standards and have received on-the-job training. The track inspectors attend FRA track inspection classes that are offered by the American Railway and Engineering Maintenance-of-Way Association or Track Sense. Division Engineers provide oversight, records review and coaching of inspectors to help ensure that high standards are maintained. The KCSR and Tex Mex programs are identical.

Engineering Department employees receive the below-listed training:

<b>Engineering Department Training</b>	
GCOR and Safety Rules	Fall Protection (select)
Roadway Worker Protection	Lone Worker Training
Lockout – Tagout	Fork Truck Safety (select)
Backs Plus	Platforms and Manlifts (select)
Emergency Preparedness	Hazard Communication
Fire Extinguisher Training	Ladder Safety
CPR / First Aid (select)	Fatigue / Alertness
Confined Space Entry (select)	Coaching
Crane Safety (select)	Heat / Cold Stress
Job Briefings	Lyme Disease
Hazmat	Hearing Conservation
Rigging (select)	Electrical Safety
Driver Safety	

**3. Employees who inspect, maintain and repair any type of on-track equipment, including locomotives, passenger cars, and freight cars of all types;**

KCSR and Tex Mex presently offer identical training for any newly-hired carman through an apprentice carman program. The program is offered through the Railroad Education Bureau (“REB”) based in Omaha, Nebraska. All new carmen are required to successfully complete a total of 108 lessons over a three year period of time. This program is an integral part of the union contract and is considered a condition of employment. The apprentice training process complies with FRA regulations and good industry practice. Ongoing training from both railways is also the same and the courses provided to employees are listed below.

Locomotive employees at KCSR also participate in a formal apprentice program through REB. All new employees are required to complete a total of 108 lessons over a three-year period of time. This program is an integral part of the union contract and is considered a condition of employment. The apprentice training process complies with FRA regulations and good industry practice. Ongoing training from both railways is also the same and the courses provided to employees are listed below. Tex Mex contracts out nearly all locomotive work and so does not participate in the locomotive apprentice program.

Inspections of locomotives on Tex Mex are performed by contractors or supervisors who have received proper training. Any additional inspection-type training that is deemed necessary will be provided to Tex Mex mechanical department employees within 90 days of change of control.

Here is a list of training courses that KCSR provides to Mechanical Department employees:

<b>Mechanical Department Safety Training (40 hour minimum per year)</b>	
Operating and Safety Rules	Fall Protection
Lockout – Tagout	Fork Truck Safety
Backs Plus	Platforms and Manlifts
Emergency Preparedness	Hazard Communication
Fire Extinguisher Training (select)	Ladder Safety
CPR / First Aid (select)	Fatigue / Alertness
Confined Space Entry (select)	Coaching
Crane Safety (select)	Heat / Cold Stress
Job Briefings	Lyme Disease
Hazmat	Blue Flag Safety
Rigging	Electrical Safety
Security	Hearing Conservation

#### **4. Dispatchers or operators;**

All dispatching for KCSR and Tex Mex is performed by personnel at the Shreveport STC. The following outlines orientation and training processes for dispatchers.

Initial Orientation - Student dispatchers are issued all educational and instructional information (*i.e.*, GCOR Rule Books, Train Dispatcher Manuals, Hazmat Emergency Guidebook, Safety Rule Book, Timetable, Study Guides, etc.). Students are briefed on the training process and are assigned to a veteran dispatcher, beginning the in-house process. This training period will consist of no less than sixty (60) days. Additional days of training will be considered on a case by case basis after a review of the student's abilities. During this time period, each student will be assigned one (1) console and will work each shift with a veteran dispatcher. Student dispatchers initially observe the dispatching process and then progress to assuming full dispatching responsibility under the watchful eye of the veteran dispatcher.

CBT - Students have access to GCOR workbook modules through the Internet via the KCSR web site to facilitate home study.

Student Evaluations (Ref. Dispatcher Manual 80.32) - Student dispatchers are evaluated by their peers. Train dispatchers are required to submit a completed evaluation form to the supervisor at the end of each tour of duty. Review of these evaluations assists in the development of student dispatchers.

Familiarization with Territory (Road Trips) - During the training phase, student dispatchers are required to take road trips on the territories/districts for which they will have dispatching responsibility. Upon completion of each road trip, they are required to submit a review of their findings to the supervisor. (Note: During the transition of

dispatcher responsibility to KCSR for Tex Mex, applicable dispatchers performed a road familiarization trip on Tex Mex.)

Classroom Training - This is completed in two (2) phases. The first phase begins approximately 30-45 days after the training process has begun. This is a one (1) day open discussion, question and answer session on method of operations, types of authorities, etc. In the second phase of training, students will attend an additional three (3) days of classroom training to review dispatching process, GCOR, Dispatcher Manual, Roadway Worker Protection, Timetable, Special Instructions, etc. The students will take a test encompassing each of these areas. They must score 90% or higher to receive Train Dispatcher Certification. Additional classroom training days will be added as deemed necessary.

Refamiliarization with Territory (Ref. Dispatcher Manual 80.7.2) – A refamiliarization process must be arranged before performing duties at a position where trains and/or maintenance-of-way workers are authorized if it has been more than 180 days since the Dispatcher last worked on that territory. To be considered re-qualified, the Dispatcher must work under the direct supervision of a Train Dispatcher qualified for that territory for a minimum of one (1) day on a position with the same type of authority and/or equipment of the position to be worked.

**5. Employees who inspect and maintain signal and train control devices and systems;**

These employees receive the same training as other Engineering Department employees as identified in Section B.2. All new employees attend a signal training school for a six-week training course. The course covers basic to advanced signaling. KCSR and Tex Mex suppliers also provide product-specific training as new products are approved and become available. Remedial training is also offered on a case-by-case basis.

The training requirements for Tex Mex are identical to those on KCSR.

**6. Hazardous materials personnel, including information technology personnel who affect the transportation of hazardous materials;**

Applicable KCSR employees receive hazmat training at least once every three years. The course has been customized based on the area of responsibility and complies with the applicable Federal regulatory requirements. Applicable Engineering and Mechanical Department employees are provided traditional classroom training and testing. Transportation employees meet the applicable requirements by taking on-line training through a CBT course. Testing is an integral part of both classroom and CBT training.

Applicable Tex Mex employees receive hazmat classroom training at least once every three years. The training is designed to comply with applicable Federal regulations. At the present time hazmat training is being provided as a normal part of the annual

Mechanical and Engineering Department training. Transportation will be moving away from classroom training and will begin using CBT in 2004.

Some FRA personnel have informally offered positive comments about the significant improvement related to hazmat regulation compliance at KCSR. Training, including assistance by the FRA, and implementation of the MCS system have played a significant role in this performance improvement. However, last year the FRA indicated that "some of the hazmat patterns that shippers use, as provided by KCSR, still have some problems." To address this concern, KCSR has taken aggressive action to review all 'patterns' and has corrected any data inaccuracies. KCSR has also implemented a 'no-bill, no-pull' policy, to prevent any improperly-documented hazmat load from being moved. In the estimation of KCSR's hazmat specialist, the KCSR hazmat performance is now at least on par with any other Class I railway in North America. Installation of the MCS system at Tex Mex is bringing these improvements to Tex Mex as well. This being said, KCSR will continue to address hazmat issues and take corrective action as appropriate.

**7. Employees who maintain or upgrade communication systems affecting rail operations;**

Employees and contractors who maintain or upgrade communications systems and equipment on or adjacent to the right-of-way are trained annually in On-Track Safety, as Lone Roadway Workers, and Watchmen/Lookouts, and every other year on hazmat and GCOR. Currently, these rules and the training requirements are identical across KCSR and Tex Mex. Changes to the operating rules are communicated via General Order, and all GCOR-certified personnel are required to have copies of all active and current General Orders in their possession prior to fouling track. New employees or contractors are prohibited from working in sufficient proximity so as to be fouling the track until they have completed the necessary On-Track Safety and/or GCOR classes.

**8. Supervisors of employees enumerated in paragraph (b)(1) through (7) of this section.**

Supervisors are expected to attend the same training (or equivalent) as is required of the people they supervise. In addition, Management Development Training is provided on a periodic basis to supervisors at KCSR and Tex Mex. Management Development Training includes training in areas such as:

- Safety Leadership
- Safety Fundamentals
- Drug and Alcohol
- Quality
- Leading a Meeting
- Time Management
- Regulatory Reporting
- Operations Testing

- Injury Management
- Effective Communication
- Derailment Prevention Training
- Sexual Harassment
- Others

**C. Operating Practices**

- 1. Operating Rules. Each applicant shall identify the operating rules, timetables, and timetable special instructions to govern railroad operations, including yard or terminal operations and freight or passenger services.**

For the government and safe operation of freight rail operations on KCSR and Tex Mex, the following sources of rules, instructions and information are used:

GCOR, effective April 2, 2000, as adopted and utilized by KCSR and Tex Mex for the safe and efficient operation of rail transportation. Revised periodically by Class 1 and numerous other railroad rules committees.

KCSR Timetable #6, including Tex Mex, effective July 1, 2004. Published as needed by KCSR for the timely update of System Special Instructions, Terminal Special Instructions and Trackage Rights Instructions for both KCSR and Tex Mex.

Certification of Locomotive Engineers and Remote Control Operator Submission: Amended November 1, 2002. - Complies with 49 C.F.R. Part 240 and FRA Notice of Safety Advisory 2001-01. Revised as needed. Currently Tex Mex maintains its own submission, which may be incorporated with KCSR's at a later date.

General Orders, Circulars and Bulletins are issued timely to reflect changes in the GCOR and KCSR and Tex Mex System Special Instructions. These additional sources are used for the timely distribution of other essential operating instructions and information. They are periodically revised as needed.

STAR Rules, effective November 5, 2000. Addresses Safety Rules, Safety Statement, Safety Vision and Safety Principles for all crafts, focusing on core and general safety rules. This rulebook is applicable to all employees of KCSR and Tex Mex. The STAR Rules are updated as necessary.

Safe Job Procedures for Transportation Employees, effective September, 2001, providing more detailed guidance on the actual job procedures that professional railroaders have found to be the safest when performing their duties. Applicable to both KCSR and Tex Mex employees.

KCSR Air Brake Systems and Train Handling Rules and Instructions, effective April 1, 2004. This book provides rules, instructions and information for safe and efficient train handling operations applicable to both KCSR and Tex Mex employees. Revised as needed to reflect changes in regulations, new technology and company policies and practices.

The KCSR Locomotive Mechanical Manual for Train Operation. This manual is applicable to employees of both KCSR and Tex Mex, providing the necessary information to better perform the duty of Engineer and Trainman in a safe and efficient manner. Revised as needed to reflect changes in regulations, new technology and company policies and practices.

United States Hazardous Materials Instructions for Rail (as contained in KCSR System Timetable #6, effective July 1, 2004). These instructions were developed by the rail industry in conjunction with Federal regulatory guidance for the safe transportation of hazmat. This is a source of consistently standard rules and regulations to enhance employee safety and the safety of the communities through which we operate. It is revised as needed to reflect regulatory changes and company policies and practices.

The Emergency Response Guidebook. Developed by Transport Canada ("TC"), The U.S. Department of Transportation ("DOT") and The Secretariat of Transport and Communications of Mexico ("SCT"). This Guidebook is used as safety and emergency response training material for all transportation personnel of both KCSR and Tex Mex who have a direct effect of the safe transportation of hazmat.

**2. Alcohol and drug. Each applicant shall identify the post-accident toxicological testing, reasonable cause testing, and random alcohol and drug testing programs as required under 49 C.F.R. Part 219.**

KCSR: The following is an outline of the KCSR Drug and Alcohol Testing program, as required under 49 C.F.R. Part 219.

**NOTICE OF DRUG/ALCOHOL TESTING**

**(effective January 1, 2003)**

The following information regarding drug/alcohol testing is required to be provided to employees of Kansas City Southern, The Kansas City Southern Railway Company and The Gateway Eastern Railway Company, who are subject to testing under regulations of the Federal Railroad Administration (FRA), 49 C.F.R. Part 219, and regulations of the Federal Motor Carrier Safety Administration (FMCSA), 49 C.F.R. Part 382. Generally, the FRA regulations referenced above apply to employees covered by the Hours of Service Law and the FMCSA regulations referenced above apply to employees required to possess a Commercial Driver's License. All employees are subject to testing under Company Policy.

The information provided below is necessarily general in nature, and if any employee has a specific question not covered in this notice, the employee should consult the actual regulations.

1. If employees have questions about these policies, they should contact their immediate supervisor.
2. The classes or crafts of employees who are subject to the provisions of the FRA and FMCSA regulations are employees who perform Hours of Service duties and drivers required to have a Commercial Driver's License.
3. Those employees performing duties under the Hours of Service Law or CDL Operators are considered to be performing safety sensitive functions and will be required to be in full compliance with these regulations regarding the use or possession of alcohol or controlled substances.
4. Any employee is prohibited from reporting for duty or remaining on duty in a condition prohibited by the FRA, FMCSA or Company Policy.
5. Employees will be tested for drugs and/or alcohol under the following circumstances by FRA, FMCSA or Company authority:
  - A. Leniency Follow-Up
  - B. Periodic
  - C. Post Accident
  - D. Pre-employment
  - E. Random
  - F. Reasonable Cause
  - G. Reasonable Suspicion
  - H. Return to Work
6. **All** employees are subject to drug and alcohol testing when there is reasonable cause for such test. The test will be conducted under the authority of the KCS unless the employee is governed by the requirements set forth in the regulations published by the FRA or FMCSA for mandatory post accident or reasonable suspicion testing.

This testing, not mandated by the FRA or FMCSA, will be required for any type of accident, incident or rule violations, unless the investigating officer can determine the employee(s) had no role in the cause or severity of such. This also includes suspicion of non-covered employees being under the influence of a controlled substance and/or alcohol.
7. Employees will be notified verbally and/or in writing by a supervisor that he/she will be tested under either the FRA, FMCSA or Company authority. The testing will be done in a private and controlled environment. Employees will be required

to provide a urine specimen of at least 45 milliliters (ml.) for the purpose of testing for the use of prohibited drugs and/or provide an adequate breath sample for alcohol breath testing with an Evidential Breath Testing Device (EBT) to measure alcohol concentration. An employee will be allowed a maximum of three (3) hours in order to provide a urine sample. If the employee cannot produce an adequate void, they will be instructed to drink not more than 40 ounces of fluid. After the three (3) hour period has expired and if the employee is still not able to provide a sufficient sample, they will be removed from service pending a medical evaluation to determine if the inability to provide a specimen is genuine or constitutes a refusal to test. During alcohol breath testing, if the employee does not provide enough breath for an adequate sample, they will be instructed for a second time on how to take the breath test. If the result is the same, the employee will be removed from service pending a medical evaluation to determine if the inability to provide breath is due to a medical condition or if the failure is considered a refusal.

8. Should an employee refuse to participate in these tests or attempt to alter the results of such tests in any manner, such employee will be subject to dismissal. An employee who is using a controlled substance without medical authorization or has an alcohol concentration level of .02 or greater will be removed from service. Employees must cooperate with the collector during the testing process.
9. The Company's Voluntary Referral and Co-Worker Referral Policies are attached for your information. These Policies contain important information concerning the abuse of alcohol and controlled substances, and should be carefully reviewed by each employee.

Tex Mex: The above program has been adopted in full by Tex Mex. All officers have received training from the FRA or KCSR on the specifics of the program. The only difference in the program at this time is that KCSR and Tex Mex use different testing companies.

**3. Qualification and certification of locomotive engineers. Each applicant shall identify the program for qualifying and certifying locomotive engineers under 49 C.F.R. Part 240.**

KCSR has an approved submission to the FRA in compliance with 49 C.F.R. Part 240 Qualification and Certification of Locomotive Engineers. All student engineers receive engineer training and examination in compliance with regulations. This includes 5 weeks of classroom training and a minimum of 20 weeks of training with an experienced engineer. It requires successful completion of an oral exam, a written exam and a simulator check ride. The student engineer must also pass a check ride over their territory as determined by a Manager of Operating Practices ("MOP").

Engineers are required to pass annual check rides with MOPs in their assigned areas. Every three years, engineers must also complete recertification.

In 2001, KCSR submitted a Remote Control Locomotive ("RCL") operations plan to the FRA. This submittal specifies that KCSR provides RCL operators one week of classroom training and one week of field training. Students complete both classroom and field testing and evaluation to ensure performance standards are met. RCL operators are also checked at least annually by a Designated Supervisor of Remote Control Operations for recertification.

The identical RCL certification processes will be followed on Tex Mex, when the decision is made to introduce RCL operations on Tex Mex. It is anticipated that RCL operations will commence on Tex Mex in 2006.

**4. Hours of service laws. Each applicant shall identify the procedures for complying with the Federal hours of service laws and related measures to minimize fatigue of employees covered by 49 U.S.C. Chapter 211.**

All Train Dispatchers are governed by the Federal hours of service law. Any on duty time in excess of nine (9) hours after having 15 consecutive hours off duty would be a violation of this law because KCSR Train Dispatchers work at the STC, where there is more than one shift. In order to receive the appropriate rest/time off, Dispatchers must have a minimum of fifteen (15) hours off between assignments. KCSR complies with this requirement. (KCSR Dispatchers also dispatch Tex Mex, so compliance by KCSR Dispatchers also constitutes compliance by Tex Mex.) Employees are instructed in the application of GCOR Rule 1.17, Hours of Service Law.

Transportation employees are governed by the Federal hours of service law. On duty time may not exceed 12 hours following 10 hours of off duty time. If the employee works less than 12 hours, the individual receives at least 8 hours of off duty time. KCSR and Tex Mex comply with this requirement. Employees are instructed in the application of GCOR Rule 1.17, Hours of Service Law.

KCSR has also proposed a special schedule agreement with the Brotherhood of Locomotive Engineers for a pilot area. If successful, this approach will be considered for other locations.

Signal employees are governed by the Federal hours of service law. Any duty-time of 12 consecutive hours requires 10 hours off duty. If an employee works less than 12 hours, they receive at least 8 hours off duty. KCSR and Tex Mex comply with this requirement. Employees are instructed in the application of GCOR Rule 1.17, Hours of Service Law.

Currently, information on sleep disorders and napping have been provided to KCSR and Tex Mex employees. Requirements for additional education and/or training are currently being reviewed for implementation in 2005 in light of FRA Safety Advisory 2004-04. This training complements the previous alertness management training that was offered across the KCSR system in 2000 and 2001. Also, KCSR's new Enterprise Workforce

Management ("EWM") system makes information more easily available to train and engine ("T&E") crews about when their next work shift is to be expected, aiding them in making better decisions about obtaining needed rest. (This portion of the EWM system is already available on Tex Mex as well.) Another benefit of the complete EWM system is that it allows real time electronic identification of T&E employees who have exceeded available hours of service, so that the cause can be investigated immediately for reporting to FRA. The EWM system is being implemented incrementally across the KCSR system at present.

**D. Motive power and equipment**

**Each applicant shall identify the qualification standards for employees who inspect, maintain, or repair railroad freight or passenger cars and locomotives, and the designated facilities used, or to be used, to repair such equipment.**

KCSR: There are major locomotive shops at Shreveport, Louisiana and Kansas City, Missouri. Smaller locomotive service facilities are located at Artesia, Mississippi, Heavener, Oklahoma and Beaumont, Texas. The employees at these facilities have received training as described in Section B.3.

Although KCSR has one of the lower mechanical-caused derailment ratios as compared to peers, the mechanical defect ratio is higher than desired. Steps taken to address this matter include:

- increased accountability of managers through supervisors being required to sign-off on repairs prior to equipment leaving shops
- clarifying and raising expectations for employees on the importance of properly repairing equipment.

Tex Mex: Nearly all locomotive-related work on Tex Mex is contracted through TFM with the original equipment manufacturer (OEM) or Alstom Corporation. Locomotives on Tex Mex are leased from the OEM, and the OEM has primary responsibility to maintain the fleet of locomotives. Qualified and knowledgeable Tex Mex management personnel will inspect for adequacy of repairs.

Locomotive inspections and minor repairs are performed by Tex Mex management employees or contractors. These employees are trained to inspect and/or perform repairs.

There are repair tracks (RIP Tracks) at Corpus Christi and Laredo (Serrano Yard) on Tex Mex. Car repair work is also done on-line using a wheel truck. Repairs that cannot be performed on Tex Mex are performed in Mexico, at Shreveport, Louisiana or through contract shops.

If defective equipment is in Mexico and should need to be moved into the United States, qualified management is available on Tex Mex to determine if the defective equipment is

safe for movement. If FRA personnel also need to inspect the defective equipment in Mexico, they can perform such inspections through their arrangements with the Mexican government.

The only anticipated operational change is that car repair billing will likely be consolidated in Shreveport, subject to contract negotiations. It is not anticipated, for example, that a change in operations will occur which would cause KCSR or Tex Mex to bring rail cars or locomotives that are normally operated in Mexico and that suffer mechanical problems there into the U.S. on a regular basis to be repaired. Should the need arise to bring a defective car or locomotive across the border for repair, Tex Mex would, of course, follow FRA's procedures for obtaining one time movement authority for the movement of such equipment. Again, however, KCSR and Tex Mex do not anticipate any increase in this practice above current levels.

**E. Signal and train control**  
**Each applicant shall identify the signal and train control systems governing railroad operations and maintenance, and any planned amendments or modifications to capital improvement and research and development projects for signal and train control operations.**

KCSR: KCSR currently operates 941 miles of track under Centralized Traffic Control ("CTC"), which consists of 185 control points with approximately 195 power switches; 88 miles of track under Automatic Block Signals; 1844 miles of track under Direct Traffic Control and Track Warrant Control; and 439 miles of branch line track under timetable or train order. There are 1120 existing Active Warning Devices, 132 existing Hotbox Detectors, 20 Spring Switches and 16 DTMF-controlled Power Switches currently in operation on KCSR.

The following capital improvements relating to signals and train control systems are planned on KCSR, including capital improvements that will upgrade to CTC the yard limits at Greenville, Texas and Shreveport, Louisiana to improve efficiency through the yards.

- \$150,000 - Upgrading existing K2 code line to Radio from Shreveport to Wylie, on the Greenville Subdivision.
- \$400,000 - To upgrade control points at Helme and Vidor on the Beaumont Subdivision joint track.
- \$90,000 - Upgrade electrocode II, to electrocode 5, on the Shreveport and Greenville Subdivisions.
- \$138,000 - Upgrade existing Hot Box Detectors throughout the system.

- \$110,000 - Install 3 Micro-Hot Box Detector systems, complete with Dragging Equipment Detection near MP 385.9, Mexico Sub., MP 244.5, Roodhouse Sub. and MP 35.7 on the Godfrey Sub.

Tex Mex: Tex Mex is also operated under Direct Traffic Control and KCSR is currently dispatching train traffic on Tex Mex out of the Dispatchers Office in Shreveport, Louisiana. There are 112 existing Active Warning Devices, 3 existing Hotbox Detectors, 1 Spring Switch and 1 DTMF controlled Power Switch on Tex Mex. The installation of three (3) new Hotbox Detectors and power-assisted switches is planned. The power-assisted switches will be used at passing sidings to reduce risk of injury and facilitate train movement. Tex Mex will install upgraded active grade crossing warning systems as initiated and funded by state and local governments.

KCSR's and Tex Mex's procedures and practices related to signal and traffic control installations are the same.

**F. Track safety standards and bridge structures  
Each applicant shall identify the maintenance and inspection programs for track and bridges, and the qualification standards for roadway workers.**

KCSR's and Tex Mex's inspection and maintenance practices for bridges and track are the same. The practices were integrated over a year ago and are under the direction of the KCSR Engineering Department. The following is a summary of the inspection and testing practices.

Bridges – Annual inspection of bridges is performed by the KCSR and Tex Mex bridge supervisors or by Osmose. These inspections are conducted in accord with the principles set forth in the FRA's non-regulatory policy statement contained in 49 C.F.R. Part 213, Appendix C. Those principles generally require that inspections be performed at least annually (or more often if special circumstances such as earthquakes or floods warrant) in accord with good railway engineering procedures by competent engineers; that records of the inspections be maintained; and that the rail operator on the bridge remain apprised of current load limits on the bridge. If defects are identified during inspections conducted by KCSR, Tex Mex or Osmose, they are repaired immediately if necessary. All other defects are prioritized for repair and ongoing follow-up inspections. Maintenance of bridges is dictated by the wear observed through the inspection process. These procedures apply to the portion of the rail bridge between Laredo, Texas and Nuevo Laredo, Tamaulipas, Mexico, which exists within the borders of the United States. Although the remainder of that bridge exists within the United States of Mexico and thus is beyond the jurisdiction of either the STB or the FRA, the same procedures generally apply to that portion of the Laredo Bridge as well.

In 2003, an inspection of the International Bridge at Laredo was performed and approximately \$60,000 in repairs were performed. The inspectors consider the bridge to

be in good condition and do not anticipate any significant repair issues in the near future. Annual or more frequent inspections of the International Bridge are performed by qualified inspectors. There are no specifically budgeted dollars for unplanned repairs of the bridge. Money will be allocated for such repairs if and when they are identified. (Additional detail on bridge conditions on Tex Mex's line and on planned repairs have been provided to the FRA in connection with Tex Mex's application for a Railroad Rehabilitation and Improvement Financing ("RRIF") loan.)

Track - On Tex Mex, track is inspected twice a week by Assistant Roadmasters. On KCSR, Track Supervisors perform the inspections based on FRA Class of Track. Remedial action is taken by the Track Inspector, defects are repaired, slow orders are put on the track or the track is taken out of service. If defects are identified, they are repaired immediately if necessary. All other defects are prioritized for repair and ongoing follow up inspections.

KCSR and Tex Mex track is tested at least twice a year with a track geometry car plus FRA's T-2000 car on an irregular basis. Main line track is generally tested three times a year with ultrasonic testers. On lighter duty track, the ultrasonic testing is performed twice a year and on heavier use track, the ultrasonic testing is performed four times per year. Additional testing may be performed based on tonnage, trains and usage.

Track is maintained and upgraded based on rail-wear, defects and inspection results.

Initial and annual Roadway Worker Training is provided for all roadway worker employees. This training is provided by a contractor - Track Sense - and proficiency of the employees is measured through Operations Testing.

**G. Hazardous Materials**

**Each applicant<sup>6</sup> shall identify an inspection program covering the following areas:**

**1. Field Inspection Practices**

KCSR: KCSR handles approximately 155,000 cars (loads/residue/intermodal) containing hazmat lading each year. KCSR leads the industry in digital management of hazardous material in transportation with its new MCS system. KCSR also leads the industry with the most comprehensive hazmat compliance inspection program. This inspection program focuses on railroad hazmat transportation compliance. Hazmat inspections may include, but are not limited to, documentation, placarding, emergency response, placement, and training. The KCSR DOT Hazardous Material Compliance Inspection Program will be made available to FRA or the STB upon request. KCSR also

<sup>6</sup> As used here and elsewhere in this document, the term "applicant" has the meaning stated in 49 C.F.R. Section 244.9; *i.e.*, "a Class I railroad or Class II railroad engaging in a transaction subject to this part." In this context, those railroads are KCSR (see also footnote 2 above) and Tex Mex.

utilizes the services of the AAR's Bureau of Explosives hazmat inspectors for impromptu field inspections, which augments KCSR's in-house program for routinely conducting the same inspections. Finally, for maximizing immediate root cause determination and corrective action, KCSR routinely partners with local FRA hazmat inspectors at KCSR's customer service center.

Tex Mex: Tex Mex handled 7,963 hazmat cars in 2003, including loads, residue and intermodal. For rail cars containing hazardous materials as regulated by the United States Department of Transportation (USDOT), Tex Mex's software program prints the word "HAZARDOUS" in capital letters on all printouts, including: switch lists, waybills, conductor wheel reports and consists for all rail cars containing hazardous materials. The computer program always offers to print detailed emergency response information whenever a query is made on a hazmat car. Computer programming automatically flags the user if a hazmat placement anomaly occurs so that corrections can be made before a train departs the yard. Mechanical forces do field inspections in accordance with DOT regulations and monitor hazmat cars for proper placarding and evidence of container leakage. Often times terminal managers manually review train consist paperwork before trains depart, check for proper placarding and train placement. In mid-June 2003 the KCSR Field Inspection Practices were implemented on Tex Mex. This change significantly enhanced the inspection process as referenced above.

## **2. Hazardous Materials Communication Standards**

KCSR: KCSR utilizes many different methods and standards for effectively communicating hazards to its employees, contractors and emergency responders. For fixed facilities, KCSR has a written Hazard Communication Program, which inventories and describes all hazmat found in the workplace. The KCSR Hazard Communication Program, in addition to providing training, equips each employee with the knowledge of how to access and understand detailed hazmat information through provided Material Safety Data Sheets.

KCSR trains all railroad hazmat employees to hazmat Awareness Level, with refresher training every 3 years, in compliance with DOT/FRA requirements. On KCSR, this training is provided through a combination of classroom-based training and CBT. This training provides each employee with the knowledge to recognize hazmat through the established DOT communication tools (placards, shipping documents, emergency response information, marking, labels and notations). Selected middle managers who are responsible for managing or responding to hazmat incidents are provided additional Technical Level, Specialist Level, and Incident Commander Level training.

For effective hazmat communications, KCSR provides all of its employees with in-depth hazmat and security training. A centralized notification process has been developed, directing all emergency notification to the Critical Incident Desk. Regulatory requirements are made available to train and hazmat employees in the KCSR Timetable, found in the section entitled "United States Hazardous Materials Instruction for Rail." In Addition to the emergency handling instructions included with each train consist, all

employees are required to carry the USDOT Emergency Response Guide Book. Copies of the Bureau of Explosives Tariff No. BOE-6000 (49 C.F.R. Parts 106, 107, 110, 130, 171-180, 209 and 397) are available to all employees at various train crew offices throughout the KCSR system.

Tex Mex: Training and availability of emergency information, as described above, are identical on Tex Mex. The only difference is that only two managers on Tex Mex have received formal training beyond the Awareness Level.

Integration: As noted, Tex Mex and KCSR practices are effectively identical. All practices will become the same as part of the integration process.

### **3. Emergency Response Procedures**

The following Emergency Response Procedures are identical on KCSR and Tex Mex:

KCSR and Tex Mex have developed a comprehensive program to communicate, notify and respond to any release (of any quantity) or potential release of hazmat, chemical, oil or an emergency condition, accident, incident, exposure, evacuation, road closure or fire resulting from or related to such materials. Building from our well-trained employee base, all notifications are made directly to the KCSR/Tex Mex Network System Coordinator ("NSC"), located at the STC in Shreveport, Louisiana. The KCSR/Tex Mex NSC is trained to extract, capture and document all incident information. All incident notifications are logged directly into the KCSR Emergency Management Information System ("EMIS"). This system provides for immediate incident documentation, event tracking, and information dissemination to internal and external responders.

From valid information gathering, the KCSR/Tex Mex NSC then executes internal and external notifications from the procedures found in the KCSR Hazardous Material and Environmental Emergency Notification Manual. A copy of the Manual will be made available to FRA or the STB upon request. Among Federal, state, local, and KCSR internal notifications, the KCSR Environmental and Hazardous Material Department is called to evaluate all incidents and respond appropriately.

KCSR and Tex Mex have established a system-wide network of on-call, fully contracted and qualified emergency responders. This response network blankets every track mile on the KCSR / Tex Mex system and provides for immediate and timely response to any hazmat or environmental incident.

Additionally, KCSR and Tex Mex have developed Local Emergency Preparedness Plans ("LEPPs") for individual yards and facilities, tailored to each KCSR or Tex Mex facility. LEPPs set out roles and responsibilities, locations of supplies, access routes, emergency meeting points, civilian agency contacts, notification requirements and methods for warning employees of emergency conditions.

KCSR and Tex Mex also are active members of the Transportation Community Awareness and Emergency Response ("TransCAER") program of the chemical industry. TransCAER provides information, training, and support outreach programs for communities through which hazardous materials are transported. KCSR and Tex Mex participate with the chemical industry in outreach efforts for the community leaders and responders about emergency procedures for responding to incidents involving hazmat.

KCSR and Tex Mex also participate in the Operation Respond Emergency Information System ("OREIS"), which is a non-profit organization aimed at improving information resources available to emergency responders.

As part of a Responsible Care® outreach program, KCSR and Tex Mex, in cooperation with DuPont, offered Emergency Responder training in Laredo, Texas during the second quarter of 2004. This outreach activity, a first of its type on Tex Mex, was the first part of an ongoing commitment to educate and support the emergency responders and communities Tex Mex serves.

**4. Information technology systems and personnel employed for transmitting or receiving information accompanying hazardous materials shipments. The inspection program should identify preventive measures that will be employed to respond to the potential information technology integration and hazardous materials documentation deficiencies.**

KCSR: KCSR is the industry leader in information technology systems designed for railroad operations. The KCSR MCS system was designed and built to accurately and compliantly manage shipper hazmat data. The MCS system is designed to detect hazmat billing errors, and when they are found, immediately flag KCSR Customer Service Center representatives for corrective action. MCS continually cross-references every outbound train electronically against the system train consist data for assured accuracy. If a train placement anomaly is detected by MCS, the event is immediately flagged and corrected.

Additionally, KCSR has developed a custom, internet-based car billing system, which allows KCSR shippers to prepare their shipping documents online and then to directly link this data to the KCSR MCS system. KCSR operates on a "no-bill, no-pull" policy which requires proper hazmat shipping papers before any car is accepted onto the KCSR system.

KCSR subscribes to the industry Electronic Data Interchange ("EDI") standards, which govern the automatic exchange and transfer of EDI data sets between connecting carriers. KCSR employs many EDI professionals, who continually monitor and maintain compliance with the industry EDI standards. KCSR information technology systems are continually inspected and tested by the KCSR DOT Hazardous Material Compliance Inspection Program. A copy of the Program will be made available to FRA or the STB upon request. This compliance inspection program is designed to test, detect and immediately correct hazardous material compliance anomalies through a root-cause

analysis protocol which finds and corrects deficiencies at the source, thus eliminating recurrence in the future.

Tex Mex: The KCSR technology systems and processes as indicated above were implemented on Tex Mex in April 2004. The implementation of the MCS system will continue to be an asset to Tex Mex. However, it should be noted that rarely is Tex Mex the initial carrier of hazmat.

**H. Dispatching operations<sup>7</sup>**

**Each applicant shall identify:**

**1. The railroad dispatching system to be adopted;**

KCSR: All territories, excluding Kansas City, Missouri, to East St. Louis, Illinois (*i.e.*, former GWWR trackage), use the ALSTOM CAD (Computer Aided Dispatch) system, DTC (Directional Authority) and CTC dispatched from the STC in Shreveport, Louisiana.

The Kansas City, Missouri to East St. Louis, Illinois line uses the KCSR Mainframe TWC (Track Warrant) computer system to generate authorities. The train movements (OS) are documented on paper train sheets dispatched from the Kansas City Joint Dispatch Center.

Tex Mex: The Tex Mex territory is dispatched under DTC dispatched from the Shreveport STC.

**2. The migration of the existing dispatching systems to the adopted system, if applicable; and**

Not applicable.

**3. The criteria used to determine workload and duties performed by operators or dispatchers employed to execute operations.**

KCSR and Tex Mex:

- Territory Miles
- Territory Capacities and Resources
- Type of Authority
- Train Volumes (Through Freight, Roadswitcher, Locals)

**I. Highway-rail grade crossing systems**

**Each applicant shall identify a program, including its development and implementation, covering the following:**

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<sup>7</sup> As noted in Section II, all dispatching on Tex Mex is performed from the KCSR STC.

**1. Identification of the highway-rail grade crossings at which there will be an increase in rail traffic resulting from the Transaction;**

KCSR and Tex Mex: As outlined in the Transaction application filed with the STB, it is projected that KCS's control of Tex Mex will result in diversions to the KCSR – Tex Mex system of only 17 carloads per day by the end of three years following consummation of the common control. Those diversions are approximately evenly divided between northbound and southbound traffic moving across the border from or to Mexico. The northbound traffic increase will principally go to Meridian, Mississippi and New Orleans, Louisiana. The operating plan projects these additional carloads can be handled on existing trains. This projection anticipates no additional crossing events based on change of control traffic in the next three years.

Questions have been raised about whether the limited traffic increases that are expected to occur on Tex Mex as a result of the control transaction will increase blockage of public grade crossings in Laredo, Texas. Initially, it should be noted that a significant portion of the diverted traffic already moves over Laredo in BNSF-Tex Mex routing. The projected diversions merely anticipate a KCS-Tex Mex routing for this traffic. In addition, blocked crossings in Laredo historically have usually resulted from interruptions of train movements over the rail bridge for inspections of railcars by U.S. and Mexican Customs officials or from miscommunication among the railroads. Aggressive action has been taken in 2003-2004 by Tex Mex, TFM and Union Pacific, in cooperation with Mexican and United States Customs, to resolve crossing blockage issues. Key actions taken include:

- Mexican Customs installed and put into operation in Nuevo Laredo a Vehicle and Cargo Inspection System (VACIS) similar to that installed four years ago at the U.S. end of the bridge by U.S. Customs. The VACIS is a gamma ray detection machine that allows inspectors to view the inside of rail cars for anything suspicious as the cars roll by. Also, TFM recently completed construction of a building for Mexican Customs at Sanchez Yard, located 27 kilometers from the International Bridge, well outside the Nuevo Laredo urban district. Mexican Customs moved into that building in May 2003, and now conducts at that location, inspections of cars identified by the VACIS as suspicious. KCSR has worked with Mexican Customs to implement an Automated Manifest System (AMS) in conjunction with institution of MCS on Tex Mex. AMS provides manifest information to Mexican Customs prior to trains arriving at the border. AMS supports Mexican Customs to make more informed inspection related decisions. Mexican Customs has expressed approval of the data available through MCS. All of these efforts help avoid stopping trains on the bridge, and in turn limit the blocking of public crossings in Laredo.
- Tex Mex, TFM and Union Pacific met in May 2003 and agreed to use two-way radios to better coordinate their traffic movements. Conference calls are held twice daily to communicate and plan efficient traffic flow for the next twelve

hours. The use of the new two-way radios facilitates coordination and adjustments to the plans. (These radios are not, however, used to control train movement. Rather, existing train control systems are used.) TFM oversees this coordination. Significant improvements to flow of traffic across the International Bridge have resulted.

Discussion last year with the Deputy Regional Administrator for FRA (Region 5) indicated that the changes in operating practices discussed above have caused major improvements in train movement efficiency, and have significantly decreased the number of incidents of trains blocking public crossings in Laredo for extended periods of time.

The Transaction application filed with the STB projects diversion to KCSR - Tex Mex of only 17 carloads per day by the end of three years following consummation of the Transaction. These additional carloads are projected to be handled in existing trains. It is anticipated that the improvements discussed above with respect to the handling of train movements across the Bridge will prevent these few additional cars – generally averaging between 3 and 6 cars per train crossing the Bridge – from causing additional blockage of public grade crossings in Laredo.

**2. An applicant's existing grade-crossing programs as they apply to grade crossings identified in paragraph (i)(1) of this section;**

As indicated above, no additional crossing events are projected to result within the next three years from the Transaction.

KCSR: Public safety is an area where dramatic improvement has occurred at KCSR. KCSR has achieved nearly a 50% reduction in highway-rail grade crossing collisions (calendar year 1995 - 216 collisions vs. calendar year 2003 - 111 collisions), even though train traffic has increased significantly.

KCSR has been very successful in reducing crossing collisions on the system. There is a full time public safety Director and more than 15 volunteer Operation Lifesaver presenters who assist him. KCSR works aggressively to clear crossings, maintain rights-of way, train law enforcement and educate the public. Emphasis is also placed on consolidating at-grade crossings. As a result of this effort, fifty-six public at-grade crossings and fourteen private at-grade crossings have been closed since 1999. A major focus in 2003 and 2004 is the implementation of additional measures to help prevent trespasser incidents. Efforts toward this goal include continued training of law enforcement personnel on railroad crossing and trespasser issues and phased-in posting of distinctive new purple “No Trespassing” signs, beginning in high priority locations.

Clearing vegetation from the four quadrants at railroad crossings is an important part of the KCSR Public Safety Program. In the last two years, crossings have been cleared between Meridian, Mississippi and Shreveport, Louisiana; Shreveport, Louisiana to Leesville, Louisiana; and on the north-south main line in Missouri. In late 2003, crossings on the New Orleans subdivision were cleared and crossings from Shreveport to Baton Rouge were cleared in 2004. Plans have been made to clear crossings on the

Alexandria and Beaumont subdivisions in 2005 as part of a 3-year program which will target approximately 900 crossings each year throughout the system.

Tex Mex: Tex Mex has worked hard to address the public safety area, and highway rail crossing collisions and trespass incidents on Tex Mex are low. The Manager of Safety and Security supports this area as part of his job responsibilities. Tex Mex has several volunteers who provide Operation Lifesaver training to targeted groups, and efforts have been made to close crossings. Tex Mex has also performed brush cutting at crossings on an as needed basis.

KCSR and Tex Mex recently updated the inventory data on all Tex Mex public grade crossings. Plans have been made to update private grade crossings in the 4<sup>th</sup> quarter of 2004 to provide the FRA with all Tex Mex grade crossing updates.

The number of KCSR and Tex Mex grade crossing collision incidents in the past 5 years has been as follows:

Tex Mex			KCSR	
Year	Crossing Collisions		Year	Crossing Collisions
1998	14		1998	195
1999	7		1999	151
2000	13		2000	152
2001	6		2001	121
2002	15		2002	105
2003	7		2003	111

The change of control will offer Tex Mex the services of a very experienced public safety officer. His leadership and expertise will help in the consolidation of crossings and implementation of a very aggressive Operation Lifesaver program. Even as traffic speeds on Tex Mex increase, the public safety program will help reduce the risk of crossing collisions.

**3. Integration of the grade crossing programs of the railroads subject to the transaction to the extent the programs may be different;**

KCSR and Tex Mex: Upon completion of the change of control there will be an even greater focus on the consolidations of grade crossings and implementation of vegetation removal in the four quadrants of the grade crossings.

**4. Emergency response actions;**

KCSR: Emergency contact numbers have been posted at all public grade crossings for use in contacting the STC 24 hours per day, 7 days per week with concerns regarding crossings or related questions (877-KCS-XING). These signs allow motorists who become stalled or in any way obstruct railroad tracks to call and simply provide the

information on the sign. This information includes the DOT identification number that pinpoints their location for our dispatching center and allows us to warn or stop trains in the affected area.

Grade crossing collision training is provided for local law enforcement officers to enhance their initial response and scene assessment, along with the enforcement and investigative options available to them. Firefighters and Emergency Medical Services responders are included in more task-specific training using the Operation Lifesaver approved emergency responder training.

“No Trespassing” signs are being installed at bridges, crossings and areas where pedestrians commonly trespass on railroad property.

Tex Mex: Emergency contact numbers have been posted at public grade crossings for use in contacting the 24-hour STC or the Texas Department of Transportation. These signs allow motorists who become stalled or in any way obstruct railroad tracks to call and simply provide the information on the sign. This information includes the DOT identification number that pinpoints their location for our dispatching center and allows us to warn or stop trains in the affected area.

**5. Avoidance of blocked or obstructed highway-rail crossing systems by trains, locomotives, railroad cars, or other pieces of rolling equipment; and**

KCSR and Tex Mex: No additional blockage or obstruction of highway-rail crossings is anticipated because no increase in train counts due to the change of control is anticipated during the next three years.

**6. Signs employed for changes in rail traffic patterns.**

KCSR and Tex Mex: No additional change of traffic is projected due to the change of control. As indicated in the opening comments, much of the operational integration between KCSR and Tex Mex has already taken place.

**J. Personnel staffing**

**Each applicant shall identify the number of employees by job category, current and proposed, to perform each of the following types of functions when there is a projected change of operations that will impact workforce duties or responsibilities:**

- 1. Train and engine service;**
- 2. Yard and terminal service;**
- 3. Dispatching operations;**
- 4. Roadway maintenance;**
- 5. Freight car and locomotive maintenance;**

6. Maintenance of signal and train control systems, devices, and appliances;
7. Hazardous materials operations; and
8. Managers responsible for oversight of safety programs.

No headcount changes, significant relocation of work, or changes in workforce responsibilities are projected for Tex Mex or KCSR as a result of the change in control. KCSR and Tex Mex are continuing to hire people to address attrition that is due to normal retirements, terminations and similar situations.

KCSR Personnel Staffing

CATEGORY	MGMT.	UNION	TOTAL	PROPOSED
<i>Train &amp; Engine Service Yard &amp; Terminal Service</i>	96	1371	1467	1467
<i>Dispatching Operations</i>	27	49	76	76
<i>Service Design, Measurement &amp; Reliability</i>	5	0	5	5
<i>Roadway Maintenance / Signal</i>	72	460	532	532
<i>Locomotive &amp; Freight Car Maintenance</i>	29	309	338	338
<i>Hazardous materials operations</i>	2	0	2	2
<i>Safety, Technical Training, and Operating Practices</i>	14	1	15	15
<b>TOTAL</b>	<b>245</b>	<b>2190</b>	<b>2435</b>	<b>2435</b>
<i>Other Operating</i>	26	89	115	115

TEX MEX Personnel Staffing

CATEGORY	MGMT.	UNION	TOTAL	PROPOSED
<i>Train &amp; Engine Service Yard &amp; Terminal Service</i>	8	115	123	123
<i>Dispatching operations</i>	0	0	0	0
<i>Service Design, Measurement &amp; Reliability</i>	0	0	0	0
<i>Roadway Maintenance &amp; Signal</i>	2	20	22	22
<i>Locomotive &amp; Freight Car Maintenance</i>	1	15	16	16

<i>Hazardous materials operations</i>	.5	0	.5	.5
<i>Safety, Technical Training, and Operating Practices</i>	1.5	0	1.5	1.5
<b>TOTAL</b>	<b>13</b>	<b>150</b>	<b>163</b>	<b>163</b>
<i>Other Operating</i>	7	28	35	35

**K. Capital investment**

**Each applicant shall identify the capital investment program, clearly displaying planned investments in track and structures, signals and train control, and locomotives and equipment. The program shall describe any differences from the program currently in place on each of the railroads involved in the transaction.**

**Track Projects**

**KCSR:**

- Ties: Install approximately 220,000 total for year, 90% on the main line and 10% on branch lines and in yards.
- Rail: Install approximately 25.0 total track miles of rail. The rail program focuses on relaying curves with new head hardened rail.
- Ballast: Dump and spread approximately 600,000 tons of ballast.
- Rail grinding: Implement a \$2.0 million rail-grinding program focused on most curves and some tangents.
- In-track welding: Eliminate 2,500 joints in CWR territory
- Turnouts: Replace 20 turnouts
- Highway-Rail Grade Crossings: Upgrade approximately 25 crossings. Install protection devices- signals, gates, lights & flashers
- Bridges and culverts: Install approximately 400 feet of new steel and concrete bridge (approximately 205 feet have already been completed on the Beaumont Subdivision). Timber bridges will be upgraded with steel stringers and concrete caps, decks, and also culverts.
- Working with the State of Louisiana and the City of Pineville, the last span of a new 200-foot steel bridge over US Hwy. 165 will be installed.
- We also have a bridge underway at Tuscaloosa, Alabama that will give the city a new structure over our main line and the switching lead.
- There are 2 more state funded highway bridges planned for this year – awaiting state approval.

KCSR Capacity Projects:

- Completed 8,500 foot siding at Morton, Mississippi
- Extended Gibsland, Louisiana siding to 9,800 feet
- 2 miles of Double track and 2-50 car setout tracks in Jackson, Mississippi
- Grading for Heavener Double track between Howe and North Heavener
- Grading for 2 miles of new mainline at Monroe to allow for a switching lead and 2<sup>nd</sup> mainline
- Curve reduction at Vicksburg from 17 degree to 10 degree curve
- Hammock Siding extended to 8,500 feet
- Newmans Siding extended to 8,500 feet
- Fox Siding extended to 8,500 feet
- Began grading for 2 Receiving and Departure tracks at Jackson High Oak Yard

In total, the KCS Engineering Department's capital track improvement budget for 2004 is \$40 million with an additional \$13.5 million spent on capacity improvement projects.

*Tex Mex:*

Tex Mex has made substantial infrastructure improvements since 1996 to help handle its growing operations, but more is needed. The improvements made since 1996 include the following:

- a new 16-track yard and intermodal facility nine miles east of Laredo, the Serrano Yard, completed in 1998 at a cost of \$9.5 million;
- a new 8,500-foot siding near Robstown, completed in 1998 at a cost of \$1.5 million;
- a new connection at Robstown with the UP's Brownsville Subdivision, completed in 1998 at a cost of \$1 million;
- a new 9,415-foot siding at Adel (on UP's Port LaVaca Branch between Victoria and Flatonia), completed in 1998 at a cost of \$2.25 million;
- installation of 60,000 ties between MP 116-157 in 1998; and
- installation of 48,000 ties between MP 9-115 in year 2001.

In addition, to eliminate a principal cause of slow orders on its line, Tex Mex in 2001 replaced all of the 90# rail in the main line and did certain other track work, particularly in curved sections.

A Tex Mex study in mid-2002 indicated that significant additional rehabilitation, beyond that performed in 2001, was needed to put Tex Mex's main line in condition to handle the volume of freight that is expected over the next 30 or more years. This is in addition to ongoing annual maintenance and capital improvement projects. These upgrades included:

- Replacing the remaining approximately 11 miles of 110# and 112# non-control cooled rail in the track;
- Welding all main line rail between Robstown and Laredo, by replacing some existing rail with new CWR and by welding existing 100# rail from the line;
- Replacing all 75# rail at Corpus Christi Yard, replacing and rehabilitating turnouts, improving drainage and installing a new security barrier;
- Installing new ties in the main line sections where ties were not replaced in 2001;
- Installing 10,000 ties in sidings, and
- Rehabilitating bridges and replacing one approximately 100-foot long bridge.

In addition, Tex Mex needs to add more sidings on its line, reducing the average spacing of sidings on Tex Mex's line from about 40 miles apart to about 20 miles apart. Tex Mex intends to build 2 new sidings, extend 3 existing sidings and to rehabilitate 6 existing sidings, including the three being extended. Presently, approximately 131 miles of Tex Mex track are rated at 40 mph and 19 miles of track are rated at 25 mph. The above referenced improvements will create a very solid track and rail infrastructure to support freight operations over the next 30 years. Again, this is in addition to the ongoing annual maintenance and capital improvement projects required to sustain the rail infrastructure.

During 2003-2004, Tex Mex has worked on several of the most immediate needs specified above. During 2003 and through the 1<sup>st</sup> quarter of 2004, nearly \$10 million was spent relaying rail in 15 curves, installing nearly 100,000 crossties in main line and sidings, and completing a number of other improvement projects. Additional track maintenance work on Tex Mex necessary to maintain track safety and to be compliant with FRA's Track Safety Standards will be funded through cash generated by Tex Mex's operations or with KCS's funds.

Mechanical

*KCSR*: Capital Program for year 2004 - \$24,000,000

- \$20,000,000 – Locomotive Rebuilds
- \$ 200,000 – EOT Devices
- \$ 100,000 – Head End Devices
- \$ 250,000 – Lubricators
- \$ 235,000 – Event Recorders
- \$ 250,000 – Radios
- \$ 400,000 – Freight Car Rehabs
- \$ 2,565,000 – Misc. equipment & tools

*Tex Mex*: No capital program for 2004. *Tex Mex* owns no locomotives. All locomotives operated by *Tex Mex* are leased and are subject to a contract which provides for the contractor to assure their performance and availability consistent with FRA regulations. Accordingly, no capital budget is needed with respect to leased locomotives. *Tex Mex* anticipates that this situation will continue for the next several years, at least.

**L. Information systems compatibility**

**Each applicant shall identify measures providing for a seamless interchange of information relating to the following subject matters:**

- 1. Train consists;**
- 2. Movements and movement history of locomotives and railroad freight cars;**
- 3. Dispatching operations;**
- 4. Emergency termination of operations; and**
- 5. Transportation of hazardous materials.**

KCSR and *Tex Mex* are currently operating under a common dispatching system and emergency termination of operations is controlled through KCSR's STC in Shreveport, Louisiana.

*Tex Mex* also operates under the same transportation management system – MCS - used by KCSR. This provides consistent interchange of train consists, movements and movement history of locomotives and railroad freight cars, and information relating to the transportation of hazmat.

As indicated in Section G.4, MCS does an outstanding job of managing hazmat information. The system flags an improperly arranged train consist. The AEI reader system also identifies any hazmat cars that are not placed properly in the consist. While KCSR believes that its hazmat information is some of the most accurate in the rail industry, there is a continual improvement effort.

**M. Security**

Late in 2003, an application filed by KCSR and *Tex Mex* to become a participant in C-TPAT was approved. C-TPAT is a Department of Homeland Security ("DHS") system by which government and industry partner to assure against terrorist incidents resulting from transportation. The C-TPAT program is designed to share information that will protect the supply chain from being compromised by terrorists and terrorist organizations. Areas covered by the program include protection against introduction of unauthorized persons or materials into trains; securing buildings and yards against unlawful entry; protection against introduction of unmanifested cargo; personnel security such as background checks; and security awareness training.

On June 12, 2003, the new Vehicle and Cargo Inspection System ("VACIS") facility on the U.S. end of the Laredo Bridge was opened. The VACIS facility houses a state-of-the-art gamma ray imaging system that 'sees' inside rail cars and intermodal equipment coming from Mexico. The DHS's Bureau of Customs and Border Protection, formerly known as U.S. Customs Service, installed the system. Tex Mex built the two-story structure housing the system. Incidents of persons stowing away in rail cars coming across the border at Laredo have diminished significantly since the VACIS became operational. This unique new system adds a new level of protection for the U.S. against terrorist activity. As NAFTA Rail increases its competitiveness with trucks, a higher proportion of U.S./Mexico traffic will move through the VACIS facility.

In addition, two canine units have now been assigned to the Tex Mex operation in Laredo to aid in the detection of trespassers. The U.S. Border Patrol is also monitoring the movement of undocumented aliens through the use of 24-hour night vision surveillance cameras. These are positioned at both ends of the Tex Mex Serrano Intermodal Facility.

#### **IV. IMPLEMENTATION OF SAFETY INTEGRATION PLAN**

Because of the substantial operational integration of KCSR and Tex Mex, as described herein, only a few steps are needed to complete the integration of safety programs of the two railroads. Some of those steps have previously been described herein, including under the subheadings Integration. Steps to be taken are listed below and are further defined on the attached Implementation Table.

- Training session will be held with Tex Mex Safety Committee(s) to support improved understanding of roles, offer improved job skills and supporting even greater passion for safety leadership. Tex Mex and KCSR operations testing to be integrated.
- Perform review and develop action plan related to Public Safety process at Tex Mex. Performed in 1st quarter of 2005.
- Develop plan for the implementation of RCL technology on Tex Mex. Timing has not yet been determined, but unlikely to occur until 2006.
- Hazmat supervisor training, to enhance emergency response capabilities.
- Complete RRIF loan process to accelerate rehabilitation of Tex Mex track structure.

See Implementation Table following this page for further information.

**SAFETY INTEGRATION PLAN – KCSR / TEX MEX  
IMPLEMENTATION TABLE**

Description	Timing	Resource	Accountability	Comments
<b>Training Session with Tex Mex Safety Committee</b> 1. Training session - all safety committee members 2. Inclusion in regional safety meetings and SACP process.	2 <sup>nd</sup> qtr 2005 1 <sup>st</sup> qtr 2005	\$20,000 10 employee days	Jim Riney / Jerry Heavin	This will foster greater craft employee ownership and influence for safety. This involvement of Tex Mex in the SACP process will assist in communication with all parties. (Training and meetings are often part of a person's salary and not considered additional expense.)
<b>Review Public Safety Process and Develop Action Plan</b> 1. Review public safety process at Tex Mex. 2. Develop action plan to enhance process.	1 <sup>st</sup> qtr 2005 2 <sup>nd</sup> qtr 2005	\$5,000 \$25,000	Allen Pepper / Victor Garcia	The additional expertise and experience that Mr. Pepper will add to the Public Safety process should help reduce the risks of crossing collisions and trespasser incidents. Mr. Pepper is anticipating the data and records review process to develop and integrate public safety action plans.

**SAFETY INTEGRATION PLAN – KCSR / TEX MEX  
IMPLEMENTATION TABLE**

<p><b>Remote Control Technology</b></p> <ol style="list-style-type: none"> <li>1. Expand the Certification of Locomotive Engineers and Remote Control Operators Submission to include Tex Mex.</li> <li>2. Develop projected schedule for implementation of RCL on Tex Mex.</li> <li>3. Install any necessary RCL equipment on locomotives.</li> <li>4. Train applicable transportation employees on RCL.</li> </ol>	<p>2006</p>	<p>\$400,000 (4- units)</p>	<p>Mike Chapman / Jim Riney</p>	<p>KCSR has developed and implemented an RCO training process that meets the requirements as identified in FRA's Safety Advisory 2001-01. It includes one week of classroom training and one week of field training. RCO equipment installation is anticipated sometime in 2006. It is anticipated that four locomotives will be equipped for RCO units on Tex Mex.</p>
<p><b>Hazmat Supervisor Training</b></p> <ol style="list-style-type: none"> <li>1. Develop hazmat supervisor level training course.</li> <li>2. Provide training to all KCSR and Tex Mex trainmasters, yardmasters and higher.</li> </ol>	<p>Completed 3<sup>rd</sup> &amp; 4<sup>th</sup> qtr 2004</p>	<p>\$30,000</p>	<p>Chet Culley</p>	<p>This advanced training will be provided to selected individuals to further enhance emergency response on KCSR and Tex Mex.</p>
<p><b>Track Safety Compliance</b></p> <ol style="list-style-type: none"> <li>1. Compliance with FRA's Track Safety Standards</li> </ol>				<p>Track maintenance necessary to maintain track safety and to be fully compliant with FRA's Track Safety Standards in 49 C.F.R. Part 213 will be funded through cash generated by Tex Mex's operations or KCS's funds.</p>