

Is It Too Late To Negotiate A Fuel Cap

Many companies may think that they missed the opportunity to cap their fuel surcharges when fuel costs were lower. Well the good news is that the opportunity to negotiate a fuel surcharge cap still exists. The bad news is that it exists because fuel costs are bound to increase. The \$3 a gallon price for diesel fuel is likely to be a common sight in about 12 – 15 months from now. That is when a new cleaner-burning diesel fuel will be required for trucks, and that blend could temporarily trade for 30-50 cents more a gallon.

This will be a result of the need to remove most sulfur molecules from on-road diesel fuel. The new ultra-low-sulfur diesel (ULSD) blend will officially be the standard made by most refiners June 1, 2006; with distribution systems required to have the new fuel by July 15. The EPA recently pushed back the date for retail outlets to sell ULSD to October 15, 2006 from September 1, 2006. Even with the push back and an extended transition period many refiners continue to be concerned about contamination from their pipe-

lines that supply other fuels. This is pushing refiners near the limits of existing technology.

There is little consensus among the experts as to the cost implication of this requirement other than it will result in higher prices. The government experts argue that the low sulfur diesel will add less than \$.10 to a gallon of diesel fuel. Other private consultants indicate that because of supply dislocations, downgrading of material that gets contaminated with sulfur from other fuels, a lack of foreign imports, and other factors that could result in much higher costs in the \$.50 - \$.60 per gallon range. It will be a challenge just to keep lower sulfur fuel properly segregated from higher sulfur products they say.

Based on the anticipated continuing swings in fuel prices it may not be too late for you to look into negotiating a fuel surcharge cap with your carriers.

Highway Bill Legislation

When they return from recess on June 6th, the recently named House and Senate conferees will begin work on the final version of the Highway Bill. Both the House and Senate have approved their own versions of the Highway Bill, but the differences between the two bills must be resolved before the legislation can go to President Bush for final approval.

What this means, is that Congress now has until the end of June to hammer out a final version of the Highway Bill, which still could include a fuel surcharge provision.

The surcharge language – Section 4139 of HR3 – says all motor carriers, brokers and freight forwarders moving truckload freight must implement fuel surcharges and they must pass 100 percent of those surcharges through to the person who actually pays for the fuel. The surcharge was included in the House's version of the bill, but not in the Senate's version.

The Fuel Surcharge Is Pumping Up The Bottom Line

Yellow Roadway, which is based in Overland Park, KS, has more than doubled its earnings in the first quarter of 2005 compared with the same time period in 2004. The company earned \$49.89 million in the first quarter, up from \$18.6 million in 2004. What's more, The Associated Press reported, the company more than quadrupled its earnings for the entire year in 2004, checking in at \$184.2 million.

Several other companies – including J.B. Hunt Transport Services Inc., Knight Transportation and USA Truck Inc., recently issued press releases posting record revenues and earnings for the first quarter of 2005. Each of those companies credited their rise in earnings to a rise in their fuel surcharges. In fact, Knight said it increased its fuel surcharge billings by 173 percent. FedEx, Celadon and Werner Enterprises also posted increased profits credited to higher fuel surcharges.

Parcel Fuel Costs

FedEx and UPS both have a 2% fuel surcharge on their ground shipments but when it comes to air shipments, FedEx applies a 9.75% fuel surcharge and UPS applies and 8.25% surcharge. This is a further incentive for our customers to look at our air to ground analysis that identifies air shipments that

move within a one day or two day delivery zones that have moved by air. Where possible customers save on the lower cost of ground shipments and in addition the fuel surcharge is significantly less. For additional information please contact your customer service representative.

SMC3 GRI

SMC3 announced last month that a 4.73% general rate increase went into effect on May 5th. Insurance premiums, labor costs, regulations, and security costs are all contributing factors sighted as the basis

for the increase in freight rates. The increase makes no mention of the fact that more carriers than ever are showing increasing operating ratios.

Practical Can Be Costly

Most shippers with mileage based rates stipulate that the carriers use the shortest route in calculating their charges. This is a result of the Household Goods mileage guides usage of the shortest routes as the basis for their publication for many years. The shortest route miles can be 5% to 7% less than the practi-

cal route miles. The Practical Rating Council is now looking to create a new standard based on the actual or practical miles driven. This may appear to be fair - from a practical standpoint - it will increase your transportation expense.

Rail Equalization Reporting And Analysis

In July and August, rail tank car owners and operators of leased tank cars will receive the annual invoice for excess empty mileage from the Association of American Railroads and rail car lessors (applicable to hopper cars in Canada). Invoices are due in 30 days and are presented without documentation. The bill for excess empty mileage does not identify the reporting railroad, only the total miles by registered car mark. Even if you could identify the railroad or railroads responsible for reporting the excess empty miles, the odds for getting any adjustment for the reported miles to the bill within 30 days are slim.

What's equal about it? Railroads will return your empties FREE. Free that is if empty miles for tank cars have not exceeded 106% of the loaded miles. Didn't you reverse route your empty returns? Many shippers have seen a dramatic increase in their liability for excess empty mileage largely due to Railroad's mishandling, service failures, optional routing and routing for the carrier's "operational convenience." In addition, there are certain times that cars moving to/from shop should not be assessed empty mileage charges, but the railroads sometimes overlook this.

Data2Logistics' monthly Equalization Reporting & Analysis provides you the capability to identify and accrue for this potential liability, document the railroads responsible for the charges and have a tool for negotiating an adjustment with the reporting railroad.

Advantages of this service from Data2Logistics include:

- Review equalization for the entire fleet, for all leased and owned equipment in one combined report
- Report this potential liability to fleet financing, don't wait for the annual surprise
- Accrue for the potential annualized liability from a monthly YTD report
- Identification of the responsible railroad causing "grossly mishandled" routing of your railcar
- Use of the analysis as a tool for negotiating an adjustment with the reporting railroad PRIOR to the calculation of the annual liability or to challenge excess wear on your assets
- Documenting excess empty mileage or revenue for subleased cars or use for internal accounting for car swaps
- Canadian and U.S. equalization reported separately
- Detail reporting by rail car is available. Use to look at movement activity for a specific car or for lease cap evaluation
- Ability to select a car mark for diversion based on the YTD status of empty vs. loaded miles as opposed to blindly selecting any car mark

Call Mike Ernst, Data2Logistics Sales Mgr-Rail, for additional detail. A sample report is available upon request. 316-733-0680.

Auditor's Tip - Selecting the Right Carrier

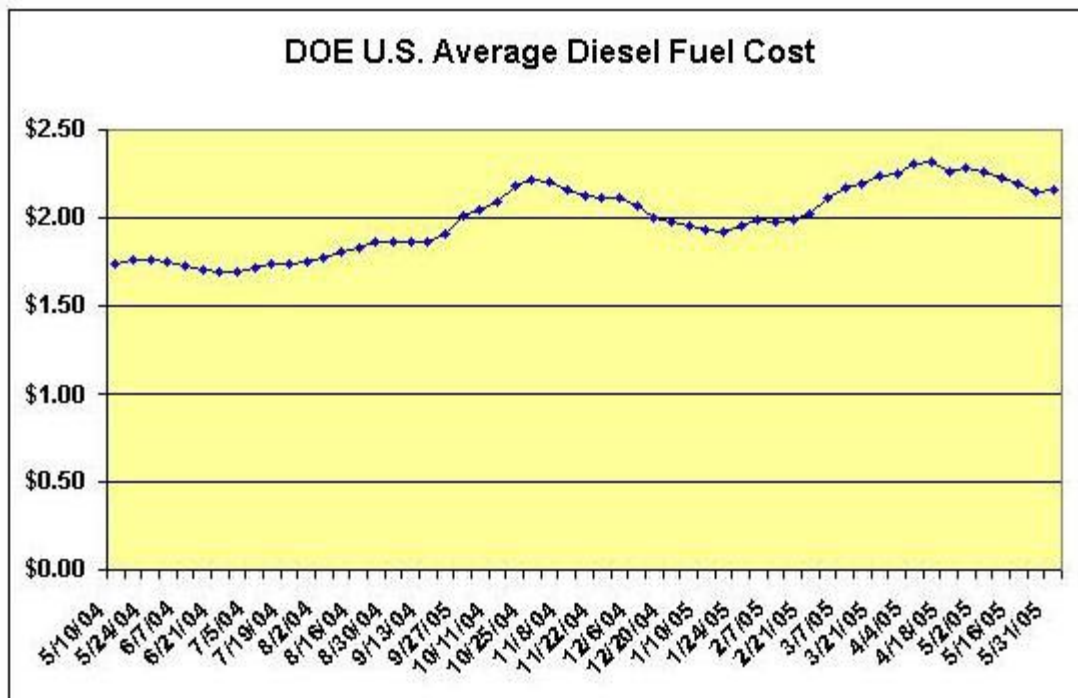
Don't look only at rates or discounts as the basis for carrier selection. It is total cost that counts and that includes fuel. Many customers select carriers based on their anticipated cost of service but do not take into consideration the fuel surcharge rates that they have negotiated. As a result the higher total cost carrier is selected and the effort made to negotiate a lower fuel surcharge is wasted. Make sure field personnel know which carriers provide the best total cost not the highest discount.

For truckload shipments of over 700 miles you want to have fuel based on a percentage of the bill. On short haul truckload moves it is better to have the fuel surcharge calculated on a cost per mile basis.

When shipping second day service with BAX Global and using their standard fuel table we suggest that you select BAX Second Day 'Saver' which applies a lower fuel surcharge.

Many contracts stipulate discounts do not apply to shipments over 2000 pounds. This language often found in a carrier's rules tariff can go unnoticed.

Diesel Fuel Prices



Contact Us

If you have any questions, comments or concerns, please go to our web site at www.data2logistics.com or contact Harold Friedman at 609-683-3917 or via e-mail at Harold.friedman@data2logistics.com.

