

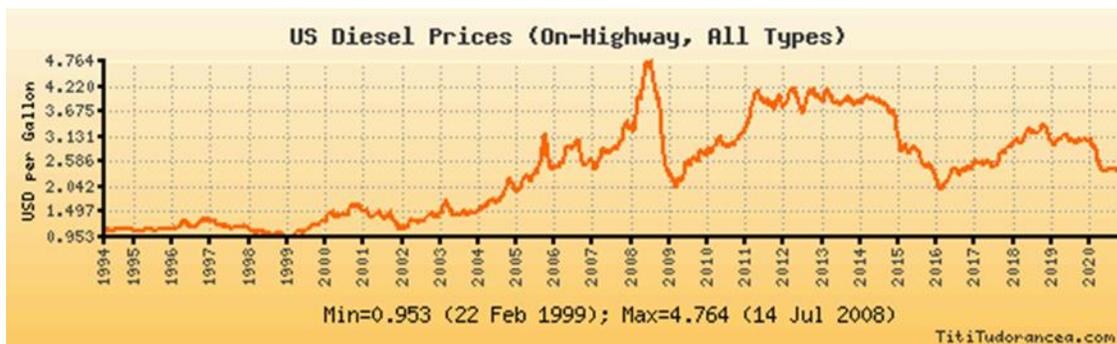
LTL FUEL SURCHARGES

By George Carl Pezold

Almost everyone that ships “LTL” (less than truckload) freight is familiar with seeing a “Fuel Surcharge” (or “FSC”) as a separate line item on their freight bills. But, really, what are these charges and where did they come from?

The expenses of operating a business are often categorized as either “fixed” or “variable”. Fixed expenses typically include wages, benefits, rent, taxes, repairs and maintenance of facilities, etc. For a motor carrier fuel costs are considered “variable” since prices can fluctuate due to market conditions.

Prior to 1999 the national average price for diesel fuel typically ranged from about \$1.00 to \$1.10 per gallon, with a low price of \$0.953 on February 22, 1999. Then, by the end of 1999 the price was up to \$1.30 and kept fluctuating and rising. Prices peaked to \$4.76 in July of 2008 and now are back down to \$2.394 as of October 1, 2020.



It was around 1999 that a number of LTL carriers instituted fuel surcharges in response to the fluctuating prices – for example Southeastern Freight Lines implemented its fuel surcharge effective September 15, 1999. Typically these fuel surcharges were “pegged” at a specific price or benchmark like \$1.50 with a surcharge if the prices were higher and a refund if the prices were lower, and many of the tables or schedules of fuel surcharges in use today basically date back for twenty years.

We reviewed the fuel surcharges published by a number of major LTL carriers on their websites and/or tariffs. All of the fuel surcharges are applied as a percentage of the freight charges on the freight bill, i.e. the discounted “line-haul” rates and/or charges, excluding other “accessorial charges”. All percentages are indexed according to the U.S. Department of Energy’s National Average On-Highway Diesel Fuel Price. For example, as of October 1, 2020, the DOE’s Diesel Fuel Price Index reflected a price of \$2.394 per gallon, and the corresponding fuel surcharge published by the surveyed major LTL carriers applicable to fuel at this price was:

<u>CARRIER</u>	<u>LTL (percent)</u>
AAA COOPER (AACT)	19.34
ESTES EXPRESS (EXLA)	20.60
FEDEX FREIGHT (FXFE/FXNL)	21.10
USF HOLLAND (HMES)	20.60
NEW PENN (NPME)	21.90

OLD DOMINION (ODFL)	20.22	
REDDAWAY (RETL)	23.20	
SAIA (SAIA)	18.12	
SOUTHEASTERN (SEFL)	20.45	
*UPS GROUND FRT (UPGF)	21.10	*(Density-Based Rated Shipments 11.0%)
XPO LOGISTICS FRT (CNWY)	23.65	
YFS (RDWY)	20.60	

On a side note, we were quite surprised to see how similar these fuel charge rates were among these carriers (competition?).

Shippers rarely question a fuel surcharge on a freight bill, but is the surcharge realistic and justified based on the actual operating costs of transporting an LTL shipment?

Fuel consumption (MPG) is based on a number of factors. LTL freight is typically picked up, taken to a local terminal, cross-docked, transported over the road, cross-docked and then delivered. Fuel consumption varies depending on the type of vehicle, the distance each travels, the type of highway, e.g. local road or interstate, rural or urban pickup or delivery locations, etc. New equipment, even with more strict state and federal environmental regulations, is more fuel efficient and achieves better mileage. Fuel prices vary significantly by region and state (like California where fuel prices are among the highest in the nation) which affects where fuel is purchased. Lastly, many carriers have contracts with truck stops for discounts, and some purchase in bulk for their own fueling stations.

Given shippers' general apathy toward fuel surcharges and the foregoing fuel consumption factors leads to several questions, such as whether a carrier's fuel surcharges are actually taking into account these fuel consumption factors, and can their published fuel surcharges can be supported and justified?

Another question is why carrier fuel surcharges should be based on a "peg" or "benchmark" like \$1.50 per gallon, when the price has never been lower than \$1.50 per gallon for at least 20 years. Does this distort the calculations upon which the surcharges were based?

But most significantly the overriding question is whether these fuel surcharges are at all reasonable? As noted above, these surcharges are applied as a percentage of the freight charges on the freight bill, i.e. the "line-haul" rates and/or charges, excluding other "accessorial charges". While freight charges have increased continually since these surcharges were first introduced some 20 years ago, fuel consumption has improved and prices are now down to about \$2.40 per gallon. How can it be reasonable to apply the same percentage to a much higher freight charge?

One might also ask if a different type of the freight carried should be taken into account. For example is the fuel consumption or cost of fuel different if the freight is rated Class 100 or Class 200? Is it twice as high for the higher rated freight? Not likely.

It appears that the practice of assessing fuel surcharges is likely to remain with us for some time. Obviously most shippers do not have access to the information and data to question or contest these charges. So what can shippers do?

For starters, when negotiating pricing it would behoove shippers to question whether fuel surcharges should be "pegged" or "benchmarked" at a more realistic starting point, rather than \$1.50 per gallon.

Additionally, shippers may want to question whether the fuel surcharge percentages applied by carriers are an accurate measure of the carrier's fuel costs in light of the factors discussed above.

Some larger shippers (who tend to have more clout) published their own fuel surcharge tables as part of their Transportation Agreement. Of interest, here are two samples of contract surcharges for the same DOE price and date as above (U.S. Department of Energy's National Average On-Highway Diesel Fuel Price \$2.394 per gallon as of October 1, 2020.)

Shipper A	4.50%
Shipper B	12.50%

As a word of caution to shippers that might want to include their own fuel surcharge tables in their transportation contracts, it is still the total of the discounted "line haul" rates and charges PLUS the fuel surcharge that determines what you have to pay!

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