



UNITED STATES
POSTAL SERVICE

Fuel Cost Uncertainty and Freight Traffic Management

**General Services Administration
Household Goods & Freight**

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Fuel Cost Uncertainty

Professional Expertise

DILBERT By SCOTT ADAMS

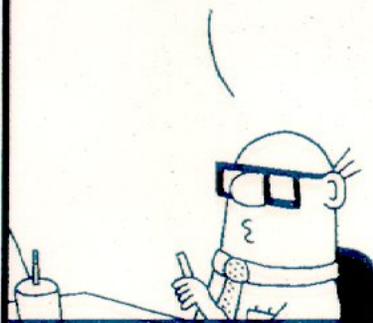
PEOPLE THINK I'M
WORTHLESS, BUT IN
FACT I'M A SUBJECT-
MATTER EXPERT IN A
VERY
NARROW
FIELD.



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IT'S SO NARROW
THAT IT REQUIRES
NO KNOWLEDGE
WHATSOEVER.



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WHAT
FIELD
IS IT?

THERE'S
NO WAY
TO KNOW
FOR SURE.





Fuel Cost Uncertainty

Definition

Fuel Adjustment

An increase or decrease in compensation to allow:

- the carrier additional compensation in times of rapidly escalating fuel prices
 - the shipper to recoup past fuel increases during times of rapidly declining fuel prices.
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Fuel Cost Uncertainty

Purpose

A good fuel adjustment procedure will:

1. Keep the buyer and seller of transportation services at the same relative positions as when a rate was agreed upon.
 2. Mitigate risk by sharing fuel price uncertainty between a carrier and shipper.
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Fuel Cost Uncertainty

Shortcomings in Current Procedure

- Neutral Zone is not periodically reset to a prevailing national average diesel fuel price
 - Large transportation service providers often purchase bulk fuel, usually undercutting the national average price
 - Some carriers hedge fuel, yielding an actual fuel cost that is less than DOE pump prices
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Fuel Cost Uncertainty

Outcomes

- Transportation Service Providers often view the fuel surcharge as a revenue-enhancing opportunity if they are able to buy fuel at or less than the national average.
 - Shippers of higher-rated commodities pay a disproportionately higher share of fuel costs than for lower classes since the surcharge is based on the line haul charges paid, not an allocation of actual fuel consumed to perform the transportation service.
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Fuel Cost Uncertainty

Near-term Improvement

Standard Tender of Service Rules should reset the “neutral zone” annually on May 1, to coincide with the effective date of carrier baseline and standing route order rates. The floor of the neutral zone ought to be the diesel fuel national average price as of February 1.



Fuel Cost Uncertainty

Possible Long-Term Approach

Institute a fuel adjustment that is weight- and distance-based, not a percentage of line-haul charges. While this requires mileage and weight for each shipment, this calculation could be included as a TMS feature. This links amounts paid by a shipper more closely to fuel consumed for shipments.



Fuel Cost Uncertainty

Discussion

Questions?

THANK YOU!
