



THE WHEEL

The Transportation Club of Houston Newsletter



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NOVEMBER LUNCHEON

Don't miss the November 7 luncheon at Sullivan's Steakhouse. They are located at 4608 Westheimer. Sullivan's is a 1940's styled steakhouse featuring the finest steaks and seafood, unparalleled martinis, and great live jazz!

Our speaker will be Otis Cliatt, of Cliatt Consulting. The topic will be "Rail Beyond Capacity".

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FALL GOLF TOURNAMENT

November 30, 2006 at the Longwood Golf Club

The fall 2006 golf tournament will be held at the Longwood Golf Club located at 13300 Longwood Trace - Cypress, TX 77429. As always, it's a really great event, on a fantastic golf course.

This time we have a noon shotgun start. The format is the usual four man scramble. Check the website for more details:

www.transclubhou.org

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HOLIDAY DINNER

Do not forget to mark down the Holiday (Christmas) party scheduled for December 5. It will be at The Great Caruso, 10001 Westheimer, Ste 1090. between Gessner and Beltway 8.

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FUEL COSTS ARE DOWN...

DO YOUR FREIGHT RATES REFLECT IT?

Steve Broussard

Is the world upside down? I'm excited about gasoline prices nearing \$2.00 a gallon! Diesel prices were \$2.595 per gallon 9/25/06, down from a recent high of \$3.065 on 8/14/06, a decrease of 15.3%.

Now is a good time to review any contracts or agreements with your motor carriers to make sure that adjustments for these lower fuel costs are being passed along. In reviewing some truckload tariffs and freight bills, it appears that some carriers are taking the opportunity of higher diesel fuel costs to increase their profit margins with excessive fuel surcharges.

Currently, most motor carrier fuel surcharges are triggered when fuel costs rise above a base cost per gallon, i.e. anywhere from \$1.10 to \$1.20 per gallon. Shippers need to be aware of motor carriers offering or adjusting their freight rates by 'rolling in or folding in' the cost of fuel and lowering their fuel surcharge index to reflect a HIGHER base fuel cost.

In 1982, the Interstate Commerce Commission allowed motor carriers and railroads to 'roll-in' a minimum diesel fuel cost to their freight rates of approximately \$1.32 per gallon in ExParte 311. This action was the result of a spike in fuel costs in 1979 and an attempt, albeit faulty logic, to eliminate the itemized fuel surcharge from freight bills, similar to what is done today. In March, 1986, after fuel costs had remained below \$1.32 per gallon for a substantial period of time, NITL and several other shipper groups filed a petition with the ICC asking that motor carrier and railroads initiate 'discount' fuel surcharges to prevent the carriers from reaping windfalls on the fuel induced rate increases. The ICC **denied** their petitions. Shippers paid these excessive fuel costs for over EIGHT (8) years, that I have record

of and maybe more! Diesel fuel costs exceeded \$1.32 per gallon only two months between 1994 and January 24, 2000. Diesel fuel costs were as low as \$0.953 per gallon from Dec. 1998 until March, 1999. Yes, less than \$1.00 per gallon as recently as 2000.

In July, 2006, the Norfolk Southern Railroad adjusted (increased) their freight rates to reflect a base crude oil price of \$64.00 per barrel. Just last week, crude oil traded below \$60.00 per barrel. While the NS lowered their fuel surcharge from approximately 18% down to 3% in July, there is NO provision in their fuel surcharge scale for discounts, IF crude oil drops below \$64.00 per barrel. Lower crude prices translate into increased profits for the NS, just like 1982, all over again.

You may not be a rail shipper, but you need to be vigilant that your motor carriers, truckload and LTL, don't try to do the same thing, 'roll-in' diesel fuel costs without discounts to compensate you if fuel costs fall below their benchmark price. They say that "if we don't study history that we are destined to repeat it"! Don't let it happen to you.

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TEXAS PORTS UPDATE

The Texas Ports Update seminar held October 3 at Brady's Landing was a great success. Each port described their operations, taking care to show the similarities between the ports and, more importantly, the differences. Each port accented their niche for growth and development opportunities. Security issues were prime concerns for the ports, with new grants from Homeland Security being used to upgrade their systems. Infrastructure improvement to and from the ports was also a concern.

Aubrey Campbell, US DOT Hazmat Specialist gave an update on his office and future updates. Hazmat seminars will be held in Oklahoma and Arkansas to inform the public about these new regulations.

Sam Blankson, Home Depot Distribution Center, gave the luncheon speech about the challenges of container traffic through the Port of Houston, Today and in the Future.

The accommodations at Brady's Landing had good reviews and everyone enjoyed the seminar.

Our next seminar will be in February and will discuss Transportation Changes for 2007.

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