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WASHINGTON, D.C. 20548

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APR 9 1974

The Honorable Philip A. Hart
United States Senate



Dear Senator Hart:

In your letter of December 15, 1972, you requested up-to-date information on the use of section 22 of the Interstate Commerce Act to assist you in your work on surface transportation legislation.

Through discussions with your staff, we agreed to limit our work to Department of Defense rail carload, motor truckload, and household goods van carrier shipments. Shipment information was available to us on automatic data processing tapes. As agreed, we are furnishing the following data for these shipments.

1. The cost under section 22.
2. The cost under commercial tariffs if section 22 were not available.
3. The carriers' costs of service, using Interstate Commerce Commission cost scales, showing variable and fixed costs separately in arriving at fully allocated costs.

Because of the differing cost data, rate analyses, sampling variations, and complex computer programming involved in computing carriers' costs for the three different modes--rail, motor, and household goods van carriers--covered by the study, we agreed to develop the data for each mode separately and to report the results to you as each was completed.

We have completed our study of Department of Defense rail carload shipments for the 7-month period May through November 1972 and found that, even though the charges under section 22 were significantly less than the charges otherwise available under commercial tariffs, the overall charges under section 22 were compensatory, whether fully allocated or variable costs were used as the measure of compensatory charges.

SUMMARY RESULTS OF STUDY ON RAIL CARLOADS

On the basis of an analysis of a statistical sample, we estimate that in the 7-month period the Government shipped about 5.3 billion pounds of rail carload freight and paid related line-haul transportation charges totaling about \$80.8 million at rates under section 22. These shipments constituted 77 percent of the total carload weight shipped during this period and 81 percent of the related line-haul charges. On the basis of rail carload cost scales published by the Interstate Commerce Commission, we estimate that the carriers' fully allocated costs of transporting the 5.3 billion pounds were

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about \$37.2 million and the variable costs were about \$29.4 million. The charges paid under section 22 were \$43.6 million above carriers' fully allocated costs and \$51.4 million above carriers' variable costs.

Had payment for these section 22 shipments been made on the basis of available tariffs, the cost to the Government would have been increased by about \$105.6 million. The tariff charges, however, were \$149.2 million above carriers' fully allocated costs and \$157 million above carriers' variable costs.

Analysis of Rail Carload Shipments
May Through November 1972
Department of Defense

Extent of use of section 22

	<u>Carloads</u>		<u>Weight</u>		<u>Line-haul charges</u>	
	<u>Number</u>	<u>Per-</u> <u>cent</u>	<u>Pounds</u>	<u>Per-</u> <u>cent</u>	<u>Amount</u>	<u>Per-</u> <u>cent</u>
	(thousands)		(billions)		(millions)	
Section 22	61	74	5.3	77	\$80.8	81
Tariff	<u>22</u>	<u>26</u>	<u>1.6</u>	<u>23</u>	<u>18.6</u>	<u>19</u>
Total	<u>83</u>	<u>100</u>	<u>6.9</u>	<u>100</u>	<u>\$99.4</u>	<u>100</u>

Effect of the use of section 22 on
Government freight transportation costs

	<u>Carloads</u>	<u>Charges</u>		<u>Difference</u>
		<u>Under</u> <u>section 22</u>	<u>Under</u> <u>available tariffs</u>	
	(thousands)	(millions)		
Section 22	61	\$80.8	\$186.4	\$105.6

Comparison of section 22 and tariff charges with carriers' costs of service

	Carriers' costs of service			Difference from		
	Charges	Fully allocated	Variable	Fixed	Fully allocated	Variable
	(millions)					
Section 22 shipments:						
Under section 22	\$ 80.8	\$37.2	\$29.4	\$7.9	\$ 43.6	\$ 51.4
Under available tariff	186.4	37.2	29.4	7.9	149.2	157.0
Tariff shipments	18.6	14.0	12.0	2.0	4.6	6.6

The above tables summarize the data for the 7-month period to show (1) the extent of the use of section 22 related to the total rail carload shipments, (2) the effect of the use of section 22 on Government transportation costs, and (3) the comparison of section 22 and tariff charges with the carriers' costs of service for those shipments. Enclosure I shows the data separately for each of 24 commodity categories as identified in the Department of Defense tapes, and enclosure II shows the annual rate for the 7-month data in enclosure I.

Our study showed that the overall charges under section 22 were not only compensatory but also well above the carriers' costs. Although the sample results showed that some individual section 22 charges and some commercial tariff charges were below the carriers' costs, these may not be statistically significant and may be due to sampling variation.

As we stated in our letter to you (B-177692, July 23, 1973), we do not oppose the philosophy that rates and charges established under section 22 be reasonable and compensatory. We agreed that the Government should pay as much for its transportation services as any other shipper would pay for similar services but that it should pay no more.

PURPOSE AND SCOPE OF STUDY

This study was designed to furnish you with factual data to assist you in your work on surface transportation legislation. The data was developed to show the extent and effect of the use of section 22 and to show whether or not charges under section 22 were compensatory, using fully allocated or variable costs as the measure of compensatory charges.

Civil agency shipments and Department of Defense less-than-carload shipments were not included in the study because this information was not available to us on tapes and it was not feasible to obtain the records of these shipments. In discussions with your office, we agreed that, since Department of Defense shipments constituted the bulk of the Government's traffic and use of section 22, analysis of this data would be sufficient for valid conclusions to be drawn as to what changes, if any, should be made in section 22.

METHODOLOGY USED IN THE STUDY

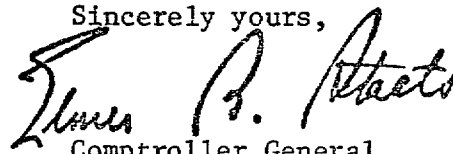
The information furnished in this report was obtained from a stratified two-stage random sample using ratio estimation. The transportation documents for the shipments in the sample were obtained and analyzed, and the charges were computed for those settled under section 22 and for those settled under tariff. For the shipments settled under section 22, we computed the charges that would have applied under tariffs if section 22 had not been available. We computed the carriers' fully allocated costs--the sum of the variable and fixed costs--for each shipment in the sample by using the data and methodology in the Interstate Commerce Commission publication "Rail Carload Cost Scales By Territories" for the year 1969 (the latest available) updated to 1972 costs from cost and productivity statistics furnished by the Association of American Railroads. The estimated totals for the 7-month period were developed from the results obtained in the sample.

The Interstate Commerce Commission data and methodology for computing carriers' costs were predicated on single car shipments and on the carriers' furnishing all the transportation services. The carriers' costs would be reduced when multiple car shipments were made and when the shipper or the receiver of the freight furnished some of the transportation services. Many Government shipments in the study were multiple car shipments, and the Government furnished some transportation services normally furnished by the carriers and included in the cost scales, such as internal switching using Government-owned locomotives on Government tracks at ammunition depots and ports. We therefore believe that the carriers' costs as shown in this study are overstated and the results showing the compensatory nature of Government traffic are conservatively stated.

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We shall be glad to discuss the results of this study with you or your staff members.

Sincerely yours,



Comptroller General
of the United States

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