

Decision No. 45338

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)	
UNITED PARCEL SERVICE OF LOS ANGELES, INC.))	Application No. 31916
for authority to adjust certain rates and)	
charges resulting in increases.)	

Appearances

Presten W. Davis, for applicant.

Charles H. Jacobsen and Stanley W. Henderson,
for the staff of the Public Utilities Commission
of the State of California.

O P I N I O N

By this application United Parcel Service of Los Angeles, Inc. seeks authority to establish certain increased rates and charges and to make other tariff changes on less than statutory notice.

Public hearing was held before Examiner Bryant in Los Angeles on January 4 and 5, 1951. The matter is ready for decision.

The authority sought in this proceeding involves only the delivery of parcels for manufacturers, manufacturers' agents, wholesalers, jobbers, and commercial distributors from Los Angeles, Long Beach and Pasadena to points within the territory embraced generally by Santa Barbara on the north, San Bernardino, Redlands and Riverside on the east, and through San Diego to the Mexican Border on the south. This service is limited to the delivery of packages weighing 100 pounds or less, and is performed by United Parcel under a certificate authorizing such transportation as a highway common carrier. Applicant is engaged also in various other transportation services

not heroin involved.¹

Applicant's tariff rates are stated in cents per package plus an additional charge of $1\frac{1}{2}$ cents for each pound or fraction thereof of its weight. The package charges vary from 16 cents to 34 cents according to the ratio between deliveries consigned to places of business on the one hand and those to private residences or elsewhere on the other. No change is proposed in these package charges, but applicant would increase the weight charge from $1\frac{1}{2}$ cents to $1\frac{3}{4}$ cents per pound or fraction thereof. In addition it would increase the weekly minimum charge for pickup service from \$2.00 to \$5.00; and would increase the charge for C.O.D. collections from 10 cents to 15 cents for each \$100 or fraction thereof. Concurrently, it proposes to make certain adjustments resulting in reductions, including extension of its pickup areas and liberaliza-

1

Applicant's other services, according to the record in this proceeding, are in general as follows:

1. Delivery of shipments for selected retail stores as a highway contract carrier and city carrier.
2. Delivery of shipments for wholesalers, manufacturers and jobbers as a city carrier in the cities of Los Angeles, Long Beach and Pasadena.
3. Delivery of shipments for a few selected wholesalers, manufacturers and jobbers from certain territory adjacent to Los Angeles, Long Beach and Pasadena, as a highway contract carrier. The points of origin, it was explained, are beyond the scope of the highway common carrier certificate.

tion of the required percentage of business deliveries.

Evidence was introduced through two witnesses, one of whom was vice president and the other the treasurer of United Parcel Service. It was testified that the proposed rates are essential to the maintenance of adequate service on a compensatory basis, and that they are reasonable as compared to those maintained for equivalent services by other transportation agencies, including Railway Express Agency, Inc., and United States Parcel Post.

A comparison of the charges upon packages of various weights under the proposed rates and under rates maintained by United States Parcel Post and by Railway Express Agency, Inc. was introduced in exhibit form. The sought rates would be lower than those maintained by the other agencies of transportation for nearly all weights of packages usually handled by the applicant company. It was testified also that applicant's proposed charges are substantially lower than the minimum charges maintained by other classes of truck carriers for the transportation of freight shipments.

With reference to the proposed increase from \$2.00 to \$5.00 in the weekly minimum charge for pickup service, the witness explained that the latter charge has been assessed for some time in connection with shipments which it transports as a city carrier. Because charges on all classes of traffic are permitted to be applied against the minimum for pickup service, it was testified,

2

The original application sought to increase the weight charge to 2 cents per pound or fraction thereof. At the hearing, applicant reduced the request to a charge of 1-3/4 cents. Its counsel stated that the higher charge was believed to be justified and necessary to produce a normal operating ratio and to give recognition to cost increases experienced since the existing rates were established. The application was amended, he said, because the federal government had requested a voluntary price "freeze" under which price advances would be limited to the amount necessary to reflect cost increases experienced since June 24, 1950. He said that his company's need for increased revenue was so acute and immediate that it did not choose to risk the delays which it believed might attend a plea for the rates necessary to satisfy fully its revenue requirements.

the increase in the tariff minimum as herein proposed would have little or no effect upon the transportation charges of any shipper.³

In support of the proposed increase in the charge for making and transmitting C.O.D. collections, applicant submitted an analysis of the cost of handling, collecting, and remitting C.O.D. bills on parcel deliveries from wholesalers, jobbers and manufacturers. According to this analysis, the total cost of handling such C.O.D. bills during the quarter ended September 30, 1950 was approximately 15 cents per bill.⁴

The witnesses recognized that the concurrent extension of pickup limits would tend to increase further its operating costs, and that the reduction in the required percentage of business deliveries would reduce somewhat the revenue which would otherwise be realized under the proposed rate adjustment. They testified, however, that the service extension is essential in view of decentralization trends and the spread of manufacturers and distributors to the outlying territories; and that the reduction in the required percentage of business deliveries is necessary to provide a practical ratio between business and residence deliveries under present-day distribution methods and practices. It was stated that these adjustments could be made directly by tariff publication without prior authority, but were included for consideration in the present

³ The weekly minimum charge guarantees one regular pickup daily.

⁴ 104,859 C.O.D. bills were handled at a total cost of \$15,744.49 (or 15.01 cents per bill). The expenses relating only to C.O.D. collections were developed as follows:

Drivers' Wages, including social security taxes and compensation insurance.....	\$4,329.30
Fixed charges on equipment.....	1,420.95
Cashiering and Auditing Expense.....	6,846.84
General & Overhead Expense	3,037.83
Transportation Taxes.....	<u>109.57</u>
Total	\$15,744.49

application because they constitute a part of applicant's over-all rate plan.

It was testified that since December, 1947, when the present tariff rates were established, applicant has experienced sharp increases in costs of labor, equipment, materials and supplies. Additionally, it was stated that productivity has been reduced by the drafting of employees for the armed services and by a resulting restrictive employment situation. According to the evidence, the wages of applicant's drivers, which were \$1.40 per hour in December, 1947, were increased to \$1.50 per hour in August, 1948, and to \$1.62 per hour effective November 1, 1950. Additionally, labor costs were increased in November, 1949, and again on November 1, 1950, by liberalization of "fringe" benefits relating to sick leave and vacations. The percentage increase of labor costs, exclusive of those resulting from the sick leave and vacation benefits, was 8 per cent on November 1, 1950, and has been 15.7 per cent since December, 1947.

Exhibits were introduced also showing numerous examples of increases in the cost of automotive parts and supplies, and of various other materials required in applicant's operations. The 1947 prices and current prices were listed for 55 different articles. The weighted average increase was not developed, but the unweighted average price increase since 1947 was approximately 25 per cent.

The operating property of United Parcel Service, as shown in an exhibit submitted by the company, includes 705 motor vehicles, numerous articles of plant equipment and 16 pieces of real property including terminals and substations. ⁵ Other exhibits were offered

⁵ The property, some of which is owned by and leased from others, had a total original cost of \$3,391,688. Other data which would be required in the determination of a rate base were not offered. Counsel for applicant explained that the property descriptions were offered in response to the Commission's rules of practice and procedure and not in support of the application. He recognized that the development of a rate base would necessarily include consideration of factors other than original cost. He did not deem such data necessary to the disposition of this proceeding.

showing applicant's operating experience for the three months ended September 30, 1950, and for the full year ended October 31, 1950. These statements show separately the results from the company's over-all services, including its contract and city operations, and from the highway common carrier operations which are alone involved herein; and show also the estimated results that would have obtained had current wage rates and certain other expenses been in effect throughout the year and had the rates herein sought been applicable. The following table shows the actual and adjusted operating experience for the year ended October 31, 1950, as set forth in the exhibits:

	<u>Actual Operating Experience</u>		<u>Adjusted For Current Cost Increases and Proposed Increased Rates</u>	
	<u>All Operations</u>	<u>Highway Common Carrier Operations</u>	<u>All Operations</u>	<u>Highway Common Carrier Operations</u>
Operating Revenues	\$6,215,387	\$1,250,343	\$6,324,055	\$1,359,011
Operating Expenses	<u>5,883,547</u>	<u>1,249,086</u>	<u>6,194,920</u>	<u>1,340,736</u>
Net Revenue	\$ 331,840	\$ 1,257	\$ 129,134	\$ 18,275
Operating Ratio	94.7%	99.9%	98%	98.7%

The following table shows in greater detail applicant's development of the adjusted revenues and expenses for the highway common carrier operations alone (the services herein involved), based upon the year ended October 31, 1950:

Actual Revenue for year	\$1,250,343.40	
Estimated Revenue Increase From Sought Rates:		
38,211,309 pounds @ \$.0025	95,528.27	
262,783 C.O.D.'s @ .05	<u>13,139.15</u>	
	\$ 108,667.42	
<u>Adjusted Revenues</u>		\$1,359,010.82
Actual Expenses for year	\$1,249,086.36	
Current Cost Increases:		
Auto Expense (10%)	\$ 17,663.33	
Salaries and Wages (8%)	61,797.80	
Soc. Sec. Taxes on Salaries and Wages (4.3%)	2,657.31	
Transportation Taxes on Additional Revenue	3,531.69	
Additional Occupancy Expense	<u>6,000.00</u>	
	\$ 91,690.13	
<u>Adjusted Expenses</u>		<u>\$1,340,736.49</u>
<u>Adjusted Net Operating Revenues</u> (before income taxes)		\$ 18,274.33
Operating Ratio (before income taxes)		98.7%

It is applicant's plan to supplement its revenues further by making corresponding or similar increases in its charges for contract and city services. These adjustments do not require Commission approval.

The witnesses testified that future operating results must be expected to be less favorable than indicated by the foregoing figures. It was explained that the estimates of record do not take into consideration additional costs resulting from

extension of the pickup zones or from recent price increases not reflected, or only partly reflected, in the October quarter; reduced revenue due to possible diversion of some traffic to other agencies of transportation; or reduced revenue due to liberalization of the required percentage of business deliveries.

The record shows that the customary notices of hearing were sent to various shippers and shipper organizations, chambers of commerce, competing carriers, and other parties believed to be interested. No one opposed the granting of this application.

The evidence is clear that applicant has encountered unavoidable increases in operating costs, and that the cumulative effect of these increases has been substantial. The record is convincing that the company's revenues under existing tariff rates are insufficient to defray all of the current costs of operation and provide a reasonable profit. Operating experience for the future cannot be determined accurately, but from the available evidence no probability appears that the sought rates would produce excessive revenues. From the record as a whole, it appears that the particular rate adjustments as sought by the company are reasonable.

Upon careful consideration of all of the facts and circumstances of record the Commission finds as a fact that the increased rates and charges proposed by the applicant in this proceeding, as specifically set forth in the order which follows, are justified; and that publication of the proposed changes on less than statutory notice should be authorized. The application will be granted.

O R D E R

Public hearing having been held in the above-entitled application, and based upon all of the evidence and upon the conclusions and findings contained in the preceding opinion,

IT IS HEREBY ORDERED that United Parcel Service of Los Angeles, Inc., be and it is hereby authorized to establish, on not less than five (5) days' notice to the Commission and to the public, the following changes in its Local Parcel Tariff, Cal. P.E.C. No. 14:

1. Increase from 1½ cents to 1-¾ cents the charge per pound or fraction thereof provided in paragraphs (a), (b), (c) and (d) of Item No. 210.
2. Increase the weekly minimum specified in Note 1 of Item No. 210 from \$2.00 to \$5.00.
3. Increase the charge for Collect on Delivery services, as specified in Item No. 150, from 10 cents to 15 cents for the first \$100 or fraction thereof, plus 15 cents for each additional \$100 or fraction thereof.
4. Reduce the percentage of business deliveries required under paragraphs (a) and (b) of Item No. 210 from 98 per cent to 95 per cent.
5. Extend the areas of pickup zones in the vicinities of the cities of Los Angeles, Long Beach and Pasadena in conformity with statutory provisions set forth in Section 50-¾(c) of the Public Utilities Act.

IT IS HEREBY FURTHER ORDERED that the authority herein granted shall expire sixty (60) days after the effective date of this order.

This order shall become effective twenty (20) days after the date hereof.

Dated at San Francisco, California, this 6th day of February, 1951.

[Handwritten signature]

Justus J. Calver

Harold Hill

[Handwritten signature]

[Handwritten signature]

Commissioners