

ORIGINALDecision No. 48591

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 United Parcel Service of Los Angeles,)
 Inc. for authority to establish) Application No. 34058
 certain increased rates applicable to)
 wholesale service within Southern)
 California only.)

AppearancesPreston W. Davis and Roger L. Ramsey for applicant.Grant L. Malquist for Transportation Division,
Engineering Section, Public Utilities
Commission of the State of California.O P I N I O N

United Parcel Service, formerly United Parcel Service of Los Angeles, Inc., is engaged among other things in the transportation of property as a highway common carrier. By this application it seeks authority under Sections 454 and 491 of the Public Utilities Code to establish certain increased rates on less than statutory notice.

A public hearing was held before Examiner Bryant at Los Angeles on March 24, 1953. The matter is ready for decision.

Applicant performs various transportation services as a highway common carrier, a highway permit carrier, and a city carrier. The rates herein involved are those for its highway common carrier "wholesale" operation within southern California. This service covers the transportation of parcels for wholesalers, manufacturers, jobbers and commercial distributors from Los Angeles, Long Beach and Pasadena to points in the area bounded generally by Santa Barbara, San Bernardino and San Diego. The proposed rate adjustment has no relation to applicant's services performed for retail stores, nor to services

recently inaugurated between Los Angeles and the San Francisco Bay area and locally in the San Francisco Bay area under authority of Decision No. 47716 dated September 16, 1952, in Application No. 33086.

For the "wholesale" service herein involved the present basic charge is 16 cents per package, plus 1-3/4 cents per pound. The proposed rate is 16 cents per package, plus 2 cents per pound. In addition, applicant would increase its charge for effecting C.O.D. collections from 15 cents per \$100 or fraction thereof, to 20 cents per \$100 or fraction thereof.

Applicant alleges that since February 25, 1951 when the present rates were established it has been subjected to various substantial increases in minimum wage rates, in costs of materials and supplies, in occupancy expense, and in other items beyond its control. It asserts that the sought rate adjustments are necessary to permit a compensatory operation in view of those increases, and that the resulting rates will be reasonable in relation to the cost of performing the service and in comparison to the rates of other agencies of transportation.

Evidence in support of the sought authority was offered by applicant's vice president and by its treasurer. The vice president undertook to show by means of rate tables and other data that the sought rates are reasonable by comparison (1) with the present parcel-post rates, (2) with the rates established by the Commission as minimum for transportation within the drayage areas of the San Francisco Bay region and Los Angeles, and (3) with the minimum charges established by the Commission for transportation of general commodities under Highway Carriers' Tariff No. 2. The treasurer submitted income and expense statements and other operating data for the purpose of showing that the proposed rates are justified from the

standpoint of the operating results which they would produce. No other witnesses testified. No one opposed the granting of the application.

The record shows, as applicant contends, that the proposed rates are lower in substantially all cases than the present parcel-post rates, and that applicant's service is somewhat more complete. It shows that the proposed rates are the same as have been established by the Commission as minimum for transportation within the San Francisco and East Bay drayage areas, and slightly higher than the current minimum in the Los Angeles drayage area. A comparison with the established minimum charges for general truck transportation shows that in the case of any single package moving as a complete shipment applicant's proposed rates are lower than the truck charges for all packages under 35 pounds in weight. Applicant's vice president pointed out that the corresponding "break point", under his company's present rates, is at 40 pounds. He said that the applicant considers the normal point to be about 35 or 36 pounds. This witness declared that whenever it becomes higher his company receives an abnormal percentage of heavier packages for which its parcel services are not designed. The sought rate increases, he said, would restore a normal relationship between the rates of his company and the minimum charges of highway carriers generally.

The treasurer submitted a specific analysis of the cost of handling the collection and remittance of C.O.D. bills on wholesale deliveries. According to this exhibit the full cost per C.O.D. collection is 17.62 cents. The package transportation costs were not estimated, except as they might be reflected in the income and expense statements.

Applicant's operating experience for the year ended with October 31, 1952, as reported by the treasurer, is summarized in the following table:

Table 1

Income and Expense Statement
(Twelve Months Ended October 31, 1952)

	<u>Wholesale</u> <u>Operation (1)</u>	<u>System</u> <u>Operations</u>
Delivery Income	\$2,438,858	\$7,208,989
Expenses	<u>2,116,978</u>	<u>6,877,748</u>
Operating Income	\$ 321,880	\$ 331,241
Income Taxes	<u>161,878</u>	<u>166,745</u>
Net Income	\$ 160,002	\$ 164,496
Operating Ratio (2)	93.4%	97.7%
Rate Base	*	\$2,452,742
Rate of Return (2)	*	11.3%

(1) Includes intracity wholesale deliveries.

(2) After provision for income taxes.

* Not developed.

A wage adjustment which became effective on November 1, 1952, under terms of a negotiated agreement, increased applicant's operating expenses substantially. The treasurer estimated that the additional wage expense for the southern California wholesale operation would be \$98,894¹ for the year. He testified that there had been increases in other items of operating expense also, including office salaries, gasoline and various materials and supplies, but said that the dollar amounts could not be readily determined.

¹

Applicant did not develop the additional wage expense for its operations as a whole.

The additional revenue which the treasurer anticipated from the sought rate increases was estimated as follows:

Transportation	\$ 165,283
C.O.D.	21,436
Total Additional Revenue	\$ 186,719

For the purpose of the foregoing revenue estimate the witness assumed that the proposed higher rates would be collected from the wholesale patrons for intracity service as well as for the longer movements. The assumption is in accordance with applicant's intention. The treasurer stated, however, that rate competition from other carriers might depress the intracity revenue somewhat below the estimated figure.²

The estimated operating results for the future year, as developed from the exhibits submitted by applicant, are shown in the following table:

Table 2

Estimated Operating Results For the Future Year
(Wholesale Operation (1))

	<u>Under Present Rates</u>	<u>Under Proposed Rates</u>
Delivery Income	\$2,438,858	\$2,625,578
Expenses	<u>2,215,873</u>	<u>2,218,457</u>
Operating Income	\$ 222,985	\$ 407,121
Income Taxes	<u>110,452</u>	<u>206,203</u>
Net Income	\$ 112,533	\$ 200,918
Operating Ratio (2)	95.4%	92.4%
Rate Base	*	*
Rate of Return	*	*

(1) Including intracity wholesale deliveries. No forecast was made for the system operations.

(2) After provision for income taxes.

* Not developed.

²

Applicant considers that the intracity services are not governed by its published tariff.

As may be seen from the figures set forth in Table 1 for the Year ended October 31, 1952, applicant derived about one-third of its over-all revenue from its southern California wholesale operation. The table discloses also that the wholesale services were relatively more remunerative than the remainder. Applicant's proposal herein would increase the wholesale revenues by \$186,719, or approximately 7.6 percent. The company made no forecast of the over-all operating results. The anticipated results from the wholesale operation alone are as set forth in Table 2. It will be observed that rate base data are lacking. It is applicant's position that such data cannot feasibly be supplied for the wholesale business alone because the operating properties are used jointly in the several operations without allocation. The vice president argued that the rate of return is not a wholly satisfactory measure of the earning requirements of this company because of the high risks in the business, the fact that the company is owned by its employees, and other factors.

This Commission will measure the reasonableness of utility earnings from all of the evidence available to it. The data submitted by applicant, as summarized in Table 2, do not constitute a clear showing that the revenues from the present rates are insufficient or that those which would result from the proposed rates would be reasonable. Aside from the question of revenue needs, applicant relied upon comparison of the proposed rates with those established for, or assessed by, the postal services and other for-hire carriers for transportation performed under various conditions. Such comparisons do not establish the fact that a proposed rate increase is justified.

Upon careful consideration of all of the facts and circumstances of record, it is concluded that the United Parcel Service has

not shown that the rate increases which it proposed in this proceeding are justified. The application will be denied.

O R D E R

Public hearing having been held in the above-entitled proceeding, the evidence having been fully considered and good cause appearing,

IT IS HEREBY ORDERED that the above-entitled application be and it is hereby denied.

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

Dated at San Francisco, California, this 12th day of

16. May
~~April~~, 1953.

R. J. [Signature]
President
Justin J. [Signature]
Harold [Signature]
Wesley [Signature]
John L. [Signature]
Commissioners