

ORIGINALDecision No. 49375

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 United Parcel Service for authority)
 to establish certain increased rates)
 applicable to wholesale service within)
 its San Francisco Bay area territory)
 only.)

Application No. 34715

Preston W. Davis and Roger L. Ramsey, for
 applicant.

Russell Bevans, for Draymen's Association
 of San Francisco, Maurice A. Owens, for
 Draymen's Association of Alameda County,
 James P. Nyhan, for Graystone Transportation
 Co. and Delivery & Messenger Services
 Association, E. J. Maurer, for Delivery &
 Messenger Services Association, Brooks &
 Winter, by Phillip A. Winter, for C. R.
 Becker d.b.a. Delivery Service Company,
 interested parties.

Grant L. Malquist, for the Commission's staff.

O P I N I O N

United Parcel Service is engaged among other things in the transportation of property as a highway common carrier. By this application filed September 10, 1953, it seeks authority to increase certain of its rates on less than statutory notice.

A public hearing of the application was held at San Francisco on October 29, 1953, before Examiner Jacopi. Evidence was offered by applicant's vice-president, by its treasurer and by a transportation engineer of the Commission's staff.

Applicant's over-all operations generally consist of parcel delivery services performed as a highway permit carrier, a city carrier and a highway common carrier. The highway permit and city

carrier services involve the delivery of parcels from retail stores in southern California and in San Francisco and East Bay cities. The highway common carrier services cover so-called wholesale parcel delivery services which consist of the transportation of parcels for wholesalers, manufacturers, manufacturers' agents, jobbers or commercial distributors between points in southern California, between San Francisco and East Bay points and northern California territory generally bounded by Santa Rosa, Napa, Sacramento, Stockton, San Jose and Los Gatos and between the aforesaid northern and southern territories.

The highway common carrier rates which applicant proposes to adjust are those applicable to the wholesale parcel delivery operations between San Francisco and East Bay points and points in the northern California territory described above.¹ These rates vary generally with the amount of weekly traffic forwarded by the shipper and range from 16 cents per package plus 2 cents per pound to 34 cents per package plus 2 cents per pound.² It is proposed to advance the rates by increasing the weight factor of 2 cents per pound to 2.5 cents per pound.

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In addition to the classes of shippers hereinbefore indicated, the service involved herein also is limited to packages weighing 70 pounds or less and measuring not more than 120 inches in length and girth combined and not more than 8 feet in length.

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The rates apply only on prepaid shipments handled under written agreements which require the use of such rates for all packages tendered to the carrier for delivery during the same calendar week.

According to the testimony of applicant's vice-president, the wholesale parcel delivery service involved herein was inaugurated on January 2, 1953, under authority of Decision No. 47716 of September 16, 1952, in Application No. 33086. Assertedly, applicant has experienced a substantial loss in conducting the service under the present rates since it was established. It was explained that the rates now in effect were identical with those proposed in the application for the operative authority and that the rates were based upon the wage and other cost levels prevailing during the latter part of 1951, when they were developed for the purpose of the aforesaid application. Evidence was introduced by the witness showing that substantial advances had occurred since that time in wages and other items of operating expense. Under the highest cost levels, the witness said, the present rates failed to return the cost of performing the service and additional revenue was needed to sustain the operations.

Studies of the financial results of operations under the present rates and those anticipated under the proposed rates were presented by applicant's treasurer and by a transportation engineer of the Commission's staff.³ The treasurer developed from applicant's books the operating experience under the present rates for the northern California wholesale parcel service involved herein and for the system operations for the 6-month period ended June 30, 1953. The staff engineer introduced similar calculations for the 7-month period ended July 31, 1953. These operating results as shown in the

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Applicant maintains detailed book records of the costs of performing the individual services involved in its various operations. Operating expenses incurred jointly for more than one service were apportioned on the bases of directly related service units involved in the particular operations. The expenses incurred for the individual services were directly assigned on the books.

exhibits offered by the witnesses are summarized in the tabulation which follows:

Income and Expense Statements
for the Periods Indicated

	<u>Present Rates</u>			
	<u>Wholesale Operations</u>		<u>System Operations</u>	
	<u>Applicant</u>	<u>Engineer</u>	<u>Applicant</u>	<u>Engineer</u>
	(1)	(2)	(1)	(2)
Delivery Income	\$153,257	\$186,837	\$5,190,818	\$6,095,496
Operating Expenses	<u>201,650</u>	<u>246,025</u>	<u>5,040,364</u>	<u>5,915,551</u>
Net Before Income Taxes	(\$48,393)	(\$59,188)	\$ 150,454	\$ 179,945
Income Taxes	-	-	<u>72,736</u>	(3)
Net After Income Taxes	-	-	\$ 77,718	(3)
Rate Base	\$319,656	(3)	\$2,791,080	(3)
Rate of Return	-	-	2.8%	(3)
Operating Ratio	131.6%	131.7%	98.5% ⁽⁴⁾	97.0% ⁽⁵⁾

() - Indicates Loss.

- (1) Results for the period January 1 to June 30, 1953.
- (2) Results for the period January 1 to July 31, 1953.
- (3) Not developed.
- (4) After provision for income taxes.
- (5) Before provision for income taxes.

It was pointed out that the foregoing figures covered the first six months of operation of the service when the traffic handled increased each month until it leveled off in the months of May and June, 1953. To demonstrate the effect of the more recent traffic level, applicant's treasurer offered an exhibit showing that

a loss of \$13,302 was experienced for the two months in question. The operating ratio was 123.04 per cent. The exhibit showed also that if the proposed rates had been in effect during the two months the loss would have amounted to \$7,846 and the operating ratio would have been 111.9 per cent.

The staff engineer undertook to develop an estimate of the revenues and operating expenses which might reasonably be anticipated for the wholesale parcel operations for the entire year 1953. The estimate was based upon the actual operations in the first seven months of 1953 with adjustments of the traffic volume to reflect current levels and with provision for known advances in the expenses. His exhibit showed that on this basis the wholesale operations in question would result in a loss of \$114,000 in the year 1953 under the present rates with an operating ratio of 129.8 per cent. The system operations in the year 1953 under the present rates, according to the engineer's estimate, would reflect an operating ratio of 98.9 per cent and net income of \$128,600 after provision for income taxes. The rate of return would be 4.72 per cent.

A forecast of the revenues and expenses anticipated for the wholesale parcel service in the year 1954 under the present and proposed rates also was presented by the staff engineer. Based on his studies, he estimated that the wholesale parcel traffic volume would be 10 per cent higher than the 1953 level. Known increases in

items of operating expense also were given effect in the forecast. The engineer's calculations as summarized from his exhibit are shown below.

Wholesale Parcel Operations
Estimated Revenues and Expenses for the
Year 1954 Under Present and Proposed Rates

	<u>Present</u> <u>Rates</u>	<u>Proposed</u> <u>Rates</u>
Revenues	\$421,100	\$478,700
Operating Expenses	<u>513,300</u>	<u>514,600</u>
Net Operating Revenue	(<u>\$ 92,200</u>)	(<u>\$ 35,900</u>)
Operating Ratio	121.9%	107.5%

() - Indicates Loss.

The staff engineer's exhibits showed also that, with the sought rates in effect for the wholesale parcel service and no change being made in any other rates, the system operations for the year 1954 would result in estimated net revenue of \$157,700 and an operating ratio of 98.7 per cent after provision for income taxes, and a rate of return of 5.79 per cent.

According to applicant's vice-president, the rate advances proposed for the wholesale parcel service were sought in order to reduce the substantial operating loss being experienced on the service. No upward adjustments were being sought at this time in the rates for the company's other services, he said, pending consideration of related matters. He explained that new wage rates for some of the services had not yet been determined and that the effect of recent changes in competitive influences in other instances had to be appraised.

No one appeared in opposition to the granting of the application. The record shows that applicant sent copies of the application to shipper organizations, chambers of commerce and interested carriers and that it informed individual shippers of its proposal. The record shows also that the Commission's secretary sent notices of the hearing to organizations and persons believed to be interested.

It is clear on this record that the revenues earned under the present rates are insufficient to cover the cost of performing the wholesale parcel service and that continuance of the operations under such rates would only result in further losses. The record shows that the additional revenue that would be derived from the increased rates proposed would do no more than to assist in reducing the operating deficit now being experienced on the service in question. The evidence is convincing that the proposed rates are needed to maintain the service for the public.

Upon careful consideration of all of the facts and circumstances of record, the Commission is of the opinion and finds that the rate increases sought in the application filed in this proceeding are justified. The application will be granted. In authorizing the increase in rates the Commission does not make a finding of fact as to the reasonableness of any particular rate or charge.

O R D E R

Based upon the evidence of record and upon the conclusions and findings set forth in the preceding opinion,

IT IS HEREBY ORDERED that United Parcel Service be and it is hereby authorized to establish in its Local Parcel Tariff Cal. P.U.C. No. 15, on not less than five days' notice to the Commission and to the public, the increased rates for wholesale parcel delivery service as proposed in the application filed in this proceeding.

IT IS HEREBY FURTHER ORDERED that the authority herein granted is subject to the express condition that applicant will never urge before this Commission in any proceeding under Section 734 of the Public Utilities Code, or in any other proceeding, that the opinion and order herein constitute a finding of fact of the reasonableness of any particular rate or charge, and that the filing of rates and charges pursuant to the authority herein granted will be construed as consent to this condition.

IT IS HEREBY FURTHER ORDERED that the authority herein granted shall expire unless exercised within sixty days after the effective date of this order.

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

Dated at San Francisco, California, this 24th day of November, 1953.

A. E. Johnson
President
Justice F. Colwell
Thomas H. Potter
John E. Hill
Gene Searns
Commissioners