

**ORIGINAL**

Decision No. 50225

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 Southern California only.

Application No. 35017

Appearances

Roger Ramsey and Preston Davis, for applicant.  
Grant L. Malquist and Leonard Diamond, of 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, a California corporation, seeks authority to establish increased rates for certain transportation services which it performs within Southern California.

A public hearing was held before Examiner Bryant at Los Angeles on May 26, 1954. The matter is ready for decision.

United Parcel Service performs various transportation services within the state of California as a highway common carrier, a highway contract carrier and a city carrier. The present application involves only the rates published by applicant as a highway common carrier for the transportation of packages for manufacturers, wholesalers, jobbers and commercial distributors from Los Angeles, Long Beach, and Pasadena to points in Southern California bounded generally by Santa Barbara on the north, San Bernardino on the east, and San Ysidro on the south. This service may be referred

to sometimes hereinafter as "the Southern California certificated wholesale service". Applicant's other services are not involved directly in this proceeding.<sup>1</sup>

The present basic rate is 16 cents per package, plus one and three-quarters cents for each pound or fraction thereof of its weight. Applicant proposes to increase the rate to 16 cents per package plus 2 cents for each pound or fraction thereof.<sup>2</sup> The company would also increase its charge for making C.O.D. collections from 15 cents to 20 cents for each \$100 or fraction thereof.

United Parcel Service alleges that since the present rates were established in February, 1951 it has been subjected to substantial increases in labor wage rates, in the cost of materials and supplies, in gasoline prices, in vehicle taxes and licenses, in occupancy expense, and in other items outside its control. It alleges, among other things, that the sought rate adjustments are necessary to permit a compensatory operation.

Evidence in support of the application was introduced by a vice-president of the applicant company and by the treasurer of an affiliated company. A transportation engineer of the Commission staff introduced a report on the estimated results of operation under the present and proposed rates.

Applicant's vice-president testified that applicant deems

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<sup>1</sup> The applicant delivers parcels from retail stores in the San Francisco area and the Los Angeles area as a highway contract carrier and city carrier; it transports packages for manufacturers, wholesalers, jobbers, and commercial distributors within the Los Angeles and San Francisco areas as a city carrier, and from and between these areas as a highway common carrier.

<sup>2</sup> Applicant also has package rates of 19¢, 24¢, and 34¢, depending upon the percentage of deliveries consigned to places of business. To all of the package rates there is added 1-3/4¢ per pound which, under this application, would be increased to 2¢ per pound. According to the evidence, more than 95% of the packages move at the basic 16¢ rate.

the proposed rates to be reasonable and justified on several grounds, which may be summarized as follows:

(1) They are necessary from the standpoint of operating costs to compensate for unavoidable expense increases which have been incurred since the present rates were established.

(2) They are reasonable and justified by comparison with rates assessed by the United States postal service for transportation of the same merchandise between the same points.

(3) They are reasonable and justified in comparison with rates that the Commission has approved as minimum for the transportation of parcels within the Los Angeles area, the San Francisco area, and the East Bay area.

(4) They are necessary to protect a relationship that has existed historically between parcel delivery rates and general trucking rates, so as to prevent unwarranted diversion of traffic from truck service to parcel delivery service.

In support of various of these contentions the vice-president introduced a number of exhibits, showing in detail the hourly wage increases to applicant's employees since the present rates were established, comparing the proposed rates with the rates for parcel post service for packages of various weights, showing and comparing the rates for packages of various weights under applicant's tariff and under the Commission's minimum rate tariffs, and illustrating the "break point" on various dates.<sup>3</sup> He testified that the relationship of applicant's rates to those of other carriers is important in that as the break point becomes higher

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<sup>3</sup> As used by applicant the term "break point" refers to the weight of the package in pounds at which it becomes cheaper for the shipper to utilize a general truck carrier rather than United Parcel Service.

applicant tends to receive a larger number of the heavier packages for which its services are not economically designed. He pointed out, through his exhibits, that the break point was 20 pounds in February, 1951, and has now crept up to 42 pounds as the result of increases in the truck rates for general carriers. Under applicant's proposal herein the break point would be reduced to 37 pounds.

The treasurer introduced and explained exhibits consisting principally of balance sheets, income statements, a description of the operating properties, and various calculations and adjustments designed to show the operating results which would obtain under the present and proposed rates for the Southern California certificated wholesale service and for the applicant corporation as a whole. He introduced also supporting exhibits and testimony explaining the allocations and the methods by which they were made. Another exhibit introduced by the treasurer analyzed the cost of handling C.O.D. bills on parcel deliveries from wholesalers, jobbers, and the manufacturers.

The exhibits introduced by the Commission engineer similarly were designed to show the effect that the proposed rate increase would have on the results of operation of applicant's Southern California certificated wholesale service and also upon the operating results of the corporation as a whole.

The following table summarizes applicant's operating experience for the year 1953 as recorded in its books and submitted in evidence in the exhibits of record:

TABLE I  
 - Book Record -  
 Year Ending December 31, 1953

	Southern Calif- ornia Certificated Wholesale	System
Operating Revenue	\$1,904,470	\$11,501,602
Operating Expense:		
Equipment Maintenance	\$ 156,930	\$ 833,636
Transportation	1,284,707	6,869,021
Terminal	175,279	782,087
Traffic	827	4,164
Insurance and Safety	68,392	393,754
Administrative and General	146,749	1,247,078
Total Operation and Maintenance	\$1,832,884	\$10,129,740
Depreciation	\$ 74,721	\$ 516,677
Taxes and Licenses	74,566	464,864
Total Expenses	\$1,982,171	\$11,111,281
Net Operating Revenue	\$ (77,701)	\$ 390,321
Federal Income Taxes	-	218,541
Net Income or Loss *	\$ (80,776)	\$ 152,889

\* After interest paid and other deductions.

( ) - Loss

Table 2 summarizes the estimated operating results under the proposed rates as submitted by applicant and by the Commission engineer:

TABLE 2  
Estimated Operating Results for  
the rate year under the proposed  
rates (1)

	Southern California Certificated Whole- sale		System	
	Applicant	Commission Engineer	Applicant	Commission Engineer
Operating Revenue	\$2,057,569	\$2,173,150	\$11,719,751	\$12,345,570
Operating Expense:				
Equip. Maint.		\$ 167,120		\$ 895,920
Transportation		1,407,150		7,577,220
Terminal		192,760		859,950
Traffic		830		4,160
Ins. & Safety		71,140		412,200
Admin. & Gen'l.		204,720		1,082,660
Total Op. & Maint.	\$1,899,195	\$2,043,720	\$10,427,327	\$10,832,110
Depreciation	74,721	69,600	516,677	414,970
Taxes & Lic.	86,604	89,290	524,629	537,120
Total Expenses #	\$2,060,520	\$2,202,610	\$11,468,633	\$11,784,200
Net Op. Revenue	\$ (2,951)	\$ (29,460)	\$ 251,118	\$ 561,370
Income Taxes	-	-	(a)	279,080
Net Income	\$ (2,951)	\$ (29,460)	\$ (a)	\$ 282,290
Est. Rate Base	\$ 456,361	\$ 712,400	\$ 3,028,775	\$ 4,103,400
Rate of Return *	-	-	(a)	6.9%
Operating Ratio *	100.14%	101.4%	(a)	97.7%

( ) — Loss

(a) — Not submitted

\* — After provision for income taxes

# — Non-operating items of interest and other deductions from income, shown in applicant's exhibits as expenses, are excluded from this table.

(1) — Applicant's estimates represent revenues and expenses adjusted for known increases that became effective in 1953, without adjustment for an increase or decrease in the annual volume. The engineer's estimates represent a forecast for the rate year 1954, with all known increases from 1953 projected into the rate year with adjustments for an anticipated increase in volume.

No other witnesses testified. No one opposed the granting of the application. The record shows that the usual advance notices of the hearing were given to persons and organizations believed to be interested.

The authority herein sought is identical to that which was sought by United Parcel Service in its Application No. 34058, filed on January 28, 1953 and denied by the Commission in Decision No. 48591 dated May 12, 1953 (52 Cal. P.U.C. 519). The denial at that time was based upon a lack of justification.<sup>4</sup>

The present record is substantially more comprehensive than the one developed on the earlier application. The evidence in this proceeding establishes clearly that the increased rates and charges herein proposed will produce little, if any, net revenue from the Southern California certificated wholesale services and will not have the effect of producing excessive earnings in the overall operations of the company. These conclusions are apparent from examination of the studies made separately and independently by the applicant company and by the Commission engineer, as summarized in the foregoing Table 2. Although these studies differ in important respects it will be seen that they

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<sup>4</sup> Applicant sought and was granted rehearing. On rehearing it requested dismissal of the proceeding without prejudice because of changed conditions. The company then indicated that it would wish to file another application after its labor wages had been determined and after it had an opportunity to observe the effect upon its business of then recently authorized increases in state-wide minimum rates and in parcel post rates.

reach similar conclusions so far as the final results are concerned.<sup>5</sup> The record shows also that the proposed rates are reasonable and not excessive by comparison with rates for somewhat similar services maintained by other carriers and other transportation agencies and with rates established by the Commission as minimum for the transportation of small parcels within certain local drayage areas.

Upon careful consideration of all of the evidence of record the Commission concludes and finds as a fact that the increased rates and charges sought by the applicant in this proceeding are justified. The application will be granted.

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:

(1) That United Parcel Service be, and it is hereby, authorized to make the following changes in its Local Parcel

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<sup>5</sup> The applicant adjusted its 1953 experience to the basis of current expenses and proposed rates; the Commission engineer expanded operating revenues and expenses based on an increased volume of packages and annual mileages as determined by the use of a trend curve. The company based its administrative and general expenses upon the amounts accruing under a contract between it and an affiliated management corporation; the Commission engineer, finding that the details of management expense were not available, allowed administrative and general expenses in accordance with a formula which placed them upon bases similar to those of a sampling of other highway common carriers. Applicant based its depreciation expense for vehicles upon a diminishing value method amounting to one-third of the book value at the beginning of each year; the Commission engineer, for the purpose of his report, used a straight line depreciation schedule using a service life for depreciation of 12 years for vehicles purchased new and 7 years for vehicles which were used when purchased. There are other differences in the methods used by the applicant and the Commission engineer.



Tariff, Cal. P.U.C. No. 14 (P.U.C. No. 14), on not less than ten days' notice to the Commission and to the public:

- (a) Amend Item 150-A to provide a charge of 20 cents for the first \$100.00 or fraction thereof, and 20 cents for each additional \$100.00 or fraction thereof, for each C.O.D. received for collection, in place of the present charge of 15 cents;
- (b) Amend Item 160-A by increasing the poundage charge from 1-3/4 cents per pound to 2 cents per pound;
- (c) Amend Item 210-A by increasing the poundage charge, in connection with each rate published therein, from 1-3/4 cents per pound to 2 cents per pound.

(2) That the authority herein granted shall expire unless exercised within 60 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 29th day of June, 1954.

Edwin E. Mitchell  
President  
Justus J. Calver  
Deane Roggens  
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Commissioners

Commissioner Kenneth Patten, being necessarily absent, did not participate in the disposition of this proceeding.