

ORIGINAL

Decision No. 54784

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)	Application No. 38744
applicable to wholesale service within)	(as amended)
a portion of the territory served in)	
Southern California only.)	

Preston Davis and Roger Ramsey, for applicant.

A. R. Day, for the staff of the Public Utilities
Commission of the State of California.

O P I N I O N

United Parcel Service is a California corporation engaged in the business of transporting property as a highway common carrier, a highway contract carrier, and a city carrier. By this application it seeks authority to establish increased rates for certain of the services which it performs as a highway common carrier within Southern California.

Public hearing on the application was held before Examiner C. S. Abernathy at Los Angeles on February 20, 1957. Evidence was presented by applicant's vice president and by its treasurer. A member of the Commission's staff also participated in the development of the record.

The services which are involved herein consist of the transportation of packages for manufacturers, wholesalers, jobbers, and commercial distributors from Los Angeles, Long Beach, and Pasadena to consignees within the area bounded generally by Santa Barbara on the north, San Bernardino on the east, and San Ysidro on the south. Applicant's basic rate for this transportation is

16 cents per package, plus two cents for each pound or fraction thereof of its weight. It proposes to increase this rate to 16 cents per package plus 2½ cents for each pound or fraction thereof and to make corresponding increases in connection with other of its package rates.¹ The sought rates are the same as those which applicant maintains for similar transportation elsewhere in the State.

According to exhibits and testimony which were submitted by applicant's witnesses, the sought rate increases are necessary to compensate for increases in operating costs which have been experienced since July, 1954, when the present rates were first established. The principal increases have been in the costs of labor, applicant's main item of operating expense, which increases have totaled about 17 percent. About two thirds of this total became effective November 1, 1956, or shortly thereafter, and increased applicant's costs of providing the services involved herein by about \$230,000 annually. Operating results from the services for the twelve months prior to November 1, 1956, were reported as follows:

Operating Revenues	\$2,928,579
Operating Expenses	<u>2,890,961</u>
Net Operating Revenues	\$ 37,618
Allowance for Income Taxes	<u>19,561</u>
Net Income	\$ 18,057
Operating Ratio	99.4%

Assertedly, the cost increases have not only adversely affected applicant's earnings but its operating procedures as well. Applicant's vice president presented testimony to the effect that the operations of United Parcel Service are tailored primarily to

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Applicant also has package rates of 19 cents, 24 cents and 34 cents, which apply according to the percentage of deliveries consigned to places of business.

the transportation of small or lightweight packages and that its rate structure was designed to attract only such packages. He said, however, that increases in the rates of other carriers and in the minimum rates established by the Commission since July, 1954, have altered the relationship of applicant's rates to those of other carriers so that there is an increasing number of heavier packages being directed to United Parcel Service. Exhibits which the witness submitted indicate that these increases have amounted to about 15 percent in the minimum rates prescribed by the Commission for the transportation of shipments of 100 pounds or less and more than 20 percent in the rates of Railway Express Agency, Inc., for shipments of 40 pounds or less. As a consequence the "break-point" between applicant's rates and those of highway carriers generally has increased from 37 pounds in July, 1954, to 44 pounds, the present level. Under the sought rates the "break-point" would be 35 pounds.²

Applicant's treasurer submitted figures to show the operating results that would be realized from the services under the sought rates and under the present level of expenses. These figures were based upon applicant's operating results for the year ended with October 31, 1956. Adjustments were made therein to reflect the additional revenues that would have been realized had the sought rates been assessed, had a service charge that was established April 30, 1956, been in effect throughout the year, and had present costs

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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.

likewise applied throughout the year. The data so developed are summarized in the table below:

Operating Revenues	(1) \$3,356,426	(2) \$3,356,426
Operating Expenses	<u>3,233,678**</u>	<u>3,168,036**</u>
Net Operating Revenues	\$ 122,748	\$ 188,390
Allowance for Income Taxes	<u>63,829</u>	<u>97,963*</u>
Net Income	\$ 58,919	\$ 90,427*
Operating Ratio	98.2%	97.3%*

* Corrected figures.

** Note: The operating expenses shown in Column (1) differ from those in Column (2) only with respect to the amounts contained for administrative expense. The allowance for administrative expense included in operating expenses shown in Column (1) is that as per applicant's records. In Column (2) administrative expense has been adjusted to a basis hereinafter explained which had been developed by a Commission engineer in a prior proceeding.

Figures which had been similarly derived and which covered applicant's system operations as a whole were also presented by the treasurer as follows:

Operating Results, System Operations
12 Months through October, 1956

Operating Revenues	(1) \$16,819,009	(2) \$17,392,656	(3) \$17,392,656
Operating Expenses	<u>15,915,728</u>	<u>16,653,572</u>	<u>16,119,401</u>
Net Operating Revenues	\$ 903,281	\$ 739,084	\$ 1,273,255
Other Income	<u>8,278</u>	<u>8,278</u>	<u>8,278</u>
Total Income	\$ 911,559	\$ 747,362	\$ 1,281,533
Allowance for Income Taxes	<u>468,511</u>	<u>383,128</u>	<u>660,897</u>
Net Income	\$ 443,048	\$ 364,234	\$ 620,636
Operating Ratio	97.4%	98.0%	96.4%

- (1) Operating results, actual, as per books.
- (2) Operating results, actual, adjusted to reflect service charge, increased revenues from sought rates, and increased labor and related costs.
- (3) Revenues and expenses as per Column (2) with administrative expense adjusted to basis developed by Commission engineer in a prior proceeding.

In explaining the figures set forth above, applicant's treasurer testified that the derivation of the information covering only the services involved herein had necessarily entailed various segregations and allocations to separate the applicable expenses from those applying to other of applicant's services. He said that the procedure which was followed for this purpose was, with two exceptions, the same as that which had been developed after studies of the operations by an engineer of the Commission's staff in the prior rate proceeding (Decision No. 50225, dated June 29, 1954, in Application No. 35017). The exceptions apply in connection with applicant's charges to depreciation expense and to management expense. With reference to depreciation, he said that applicant has followed the practice of depreciating its vehicles on the basis of an economic service life of about 8½ years, whereas a somewhat longer period was used by the Commission engineer. He asserted that under the depreciation practices which have been followed the properties are now more nearly depreciated than would have been the case under the procedures of the engineer, and that, as a consequence, the charges to depreciation expense are now less than would have been the case otherwise. With respect to management expense, the treasurer explained that applicant contracts with an affiliated company for management services. The fee for the management services so provided is computed on percentages of the gross and net revenues. He said that on the other hand the Commission engineer had concluded from his studies of the operations that a charge of 8.8 percent of the total operating, maintenance, health and welfare expenses would provide a reasonable charge for management for rate-making purposes. The treasurer stated

that because of the difference in viewpoint concerning the amount to be charged for management, the financial data shown above had been prepared to disclose operating results under either method of computing management expense.

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

The evidence in this matter shows clearly that applicant's revenues under its present rates for the services involved are not sufficient to return the costs incurred. The revenues that would be received under the sought rates appear no more than enough to provide a small margin for profit on the services. It appears, moreover, that establishment of the sought rates would not result in excessive earnings from the system operations. Upon consideration of these circumstances and of the record as a whole, the Commission concludes and finds as a fact that the increased rates sought in this proceeding have been shown to be justified. The application will be granted. Also, there will be granted a request of applicant for authority to establish the increased rates on less than statutory notice. The granting of authority in this respect is justified by applicant's need for expeditious relief from the losses being incurred under present rates.

O R D E R

Based on the conclusions and findings set forth in the preceding opinion,

IT IS HEREBY ORDERED that:

1. United Parcel Service be, and it hereby is, authorized to amend Items Nos. 160-B, 210-B, and 211 of its Local Parcel Tariff Cal. P.U.C. No. 14, on not less than five days' notice to the Commission and to the public, to establish a poundage charge of $2\frac{1}{2}$ cents per pound in lieu of the poundage charge of 2 cents a pound now specified in said items.

2. The authority herein granted shall expire unless exercised within ninety 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 2nd day of April, 1957.

John E. Mitchell
President
Robert W. Lawrence
Wm. H. Hood
R. H. King
C. Lynn Fox
Commissioners