

ORIGINALDecision No. 50950

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 a portion of the territory)
 served.)

Application No. 40018

Roger L. Ramsey, for applicant.
Philip A. Winter, for Delivery Service Company;
James Quintrall, Arlo D. Poe and J. C. Kaspar,
 for California Trucking Associations, Inc.;
 interested parties.
A. R. Day, for the Commission's staff.

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 and within Northern California. Authority is also sought to cancel certain rates which are said to be obsolete.

Public hearing of the application was held before Examiner Carter R. Bishop at Los Angeles and San Francisco on May 21 and 22, 1958, respectively. Evidence was presented by applicant's vice president and by its treasurer. A representative of California Trucking Associations and 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, and for the above-described classes of shippers from San Francisco and East Bay cities to consignees within the area bounded generally by Santa Rosa on the north, Sacramento and Stockton on the east, and San Jose on the south. Applicant's basic rate for this transportation is 16 cents per package, plus 2½ cents for each pound or fraction thereof of its weight. It proposes to increase this rate to 16 cents per package plus three cents for each pound or fraction thereof and to make corresponding increases in connection with other of its package rates.^{1/}

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 the establishment of the present rates.^{2/} The principal increases have been in the costs of labor, applicant's main item of operating expense, which increases have totaled about 23 per cent in Northern California and 11 per cent in Southern California. Increases have occurred also in the cost of such items as fuel, materials, supplies and licenses, and in operating taxes, inter alia.

Operating results from the services here in issue for the 12-month period ending December 31, 1957, the record indicates, reflected a loss. These results are summarized as follows:

Operating Revenues	\$4,773,586
Operating Expenses	<u>4,843,937</u>
Net Operating Revenue (Loss)	\$ (70,351)
Operating Ratio	101.47%

^{1/} 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.

^{2/} The present level of rates became effective on December 14, 1953, in Northern California and on April 22, 1957, in Southern California.

Applicant's vice president presented testimony to the effect that the operations of United Parcel Service are tailored primarily to the transportation of small or lightweight packages and that its rate structure was designed to attract only such packages. Applicant's vehicles, sorting equipment and other facilities are not designed to handle the heavier packages in great quantity. This witness said, however, that increases in the rates of other carriers and in the minimum rates established by the Commission since applicant's present wholesale rates became effective have altered the relationship of applicant's rates to those of other carriers so that there is an increasing number of heavier packages being tendered to applicant. As a consequence of these rate increases the "break-point" between applicant's rates and those of highway carriers generally has increased, in Northern California, from 41 pounds in December, 1953 to 64 pounds, the present level. In Southern California the "break-point" has increased from 35 pounds in April, 1957, to the present level of 64 pounds. Under the sought rates the "break-point" in both areas would be 45 pounds.^{3/}

The record discloses that the sought increased rates would still be well below those of uninsured parcel post for comparable movements.^{4/} The proposed increases, per package, range from zero for a one-pound package to 18.3 per cent for packages reflecting the maximum weight of 70 pounds.

^{3/} 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.

^{4/} Applicant's rates include insurance up to \$100 per package, and provide for free return of refused or undeliverable packages.

Applicant's treasurer submitted figures to show estimated operating results for a 12-month period under the sought rates and after taking into account the effect of certain increases in operating costs which have been experienced. These figures, which are summarized in the following table, are based on applicant's operating results for the 12-month period ending December 31, 1957.

Operating Revenues	\$5,292,094
Operating Expenses	<u>5,179,322</u>
Net Before Income Taxes	\$ 112,772
Allowance for Income Taxes	<u>39,551</u>
Net After Income Taxes	\$ 73,221
Operating Ratio	98.6%

According to the record, applicant's entire wholesale operations would reflect an operating ratio, after income taxes, of 97.9 per cent, if the increases sought herein are granted. The treasurer also presented figures showing actual operating results for applicant's total system operations for the 12-month period ending December 31, 1957, and as adjusted to give effect to the rate increases sought herein and to increased operating expenses. These results are summarized in the following table:

Operating Results, System Operations
12 Months through December, 1957

	<u>Actual</u>	<u>Adjusted</u>
Operating Revenues	\$19,437,441	\$19,955,949
Operating Expenses	<u>18,505,123</u>	<u>19,086,041</u>
Net Operating Revenue	\$ 932,318	\$ 869,908
Extraordinary Income Credits and Charges	<u>8,683</u>	<u>8,683</u>
Net Before Income Taxes	\$ 923,635	\$ 861,225
Allowance for Income Taxes	<u>323,940</u>	<u>302,048</u>
Net After Income Taxes	\$ 599,695	\$ 559,177
Operating Ratio	96.9%	97.2%

The income tax amounts shown in the foregoing tables are substantially less than would normally accrue in connection with the amounts of net operating revenue shown in the respective tables. In explanation of this circumstance, the treasurer stated that, for the year 1957, applicant was permitted to take accelerated depreciation amounting to about \$150,000, on the equipment installed in the utility's new building in Los Angeles.^{5/}

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 the same as that utilized in prior increase proceedings involving applicant's wholesale service rates within the areas embraced by this application.

The cancellations proposed in the application herein embrace certain obsolete rates and related rules. The rates in question are subject to a weekly minimum charge of \$5. These rates have been superseded by rates which are subject to a weekly service charge of \$2. Under the latter basis a call is made at the customer's place of business every day, regardless of whether any shipments are tendered. The provisions herein sought to be canceled, the vice president stated, have not been used during the past two years. While some increases would be involved, these would be solely of a technical nature.

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.

^{5/} Depreciation expense as shown in applicant's book records and as included in the foregoing tables is calculated at normal depreciation rates.

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, together with the proposed cancellations, 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 findings and conclusions set forth in the preceding opinion,

IT IS ORDERED that:

1. United Parcel Service be and it is hereby authorized to amend Items Nos. 160-C and 211-A of its Local Parcel Tariff Cal. P.U.C. No. 14, and Item No. 245 of its Local Parcel Tariff No. 15, on not less than five days' notice to the Commission and to the public, to establish a poundage charge of 3 cents per pound in lieu of the poundage charge of 2½ cents per pound now specified in said Items.

2. United Parcel Service be and it is hereby authorized to cancel, on not less than thirty days' notice to the Commission and to the public, Item No. 210-C of its Local Parcel Tariff Cal. P.U.C. No. 14, and Items Nos. 170, 190, 230, 235-A and 240 of its Local Parcel Tariff Cal. P.U.C. No. 15.

3. The authority granted herein 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 8th day of JULY, 1958.

E. Lyn Fox
President
W. E. Mitchell
Ray L. Lawrence
Walter J. Dool
Richard J. Jenner
Commissioners