

Decision No. 61014**ORIGINAL**

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 parcel deliv-
 ery service within a portion of the
 territory served.

Application No. 42626

Roger Ramsey for United Parcel Service, applicant.
J. C. Kaspar, A. D. Poe and J. X. Quintrall for
 California Trucking Associations, Inc.,
 interested party.
A. R. Day and John R. Laurie for the Commission's
 staff.

O P I N I O N

United Parcel Service is engaged in the transportation, as a highway common carrier, of parcels between points in California, limited to service performed for wholesalers, manufacturers, jobbers and commercial distributors. It also conducts a retail delivery service as a highway contract carrier. By this application, filed August 30, 1960, it seeks authority to increase certain of its common carrier rates and charges. The contract carrier operations are not involved in this application.

Public hearing was held before Examiner William E. Turpen at San Francisco on September 20, 1960. Evidence was presented on behalf of applicant by its vice-president and by its treasurer. Members of the Commission staff assisted in developing the record. No one appeared in opposition to the application.

United Parcel's rates for the wholesale service consist of a basic charge per package plus a charge per pound. The package charge varies from 16 to 34 cents per package depending on the percentage of deliveries to business houses. The charge per pound varies from 3 to 7 cents depending on the destination. There is also a service charge of \$2.00 per week which provides for automatic daily pickup calls to the shipper.

At this time applicant seeks authority to increase its rates on shipments originating in central and northern California (that territory north of Gorman on the Ridge Route and north of Santa Barbara on the coast) and to make certain changes in the rate structure applicable to shipments originating in the San Francisco and East Bay pickup zones. No changes are proposed in the rates applicable to shipments originating in Southern California. Applicant proposes to increase each of the package charges by 3 cents and to increase the charge for C. O. D. collections from 20 cents for each \$100 of the C. O. D. amount to 30 cents for each C. O. D. without regard to the amount to be collected.

At the present time shipments between points both of which are located in Territory "B", as described in applicant's tariffs, enjoy a per pound rate of 3 cents. This territory consists of the area near San Francisco roughly bounded by San Jose, Stockton, Sacramento and Santa Rosa. Applicant proposes to reduce the size of Territory "B" so that it will consist roughly of the area adjacent to San Francisco Bay from San Francisco through San Jose to Oakland and Richmond. This will reduce the area within which the 3 cents per pound rate will apply, resulting in some increases.

Except for shipments between points both within Territory "B", and from the San Francisco and East Bay pickup zones, applicant's rates are constructed in the same manner as the U. S. parcel post zones. Shipments to Zones 1 and 2 (within 150 miles of origin) take the per pound rate of 4 cents, to Zone 3 (150 to 300 miles) take the per pound rate of 5 cents, and to Zone 4 (300 to 600 miles) take the per pound rate of 7 cents. From the San Francisco and East Bay pickup zones described destination territories are now named in applicant's tariff. For uniformity, applicant now desires to make these shipments subject to the zone system of rates. This change will involve small increases at some points.

Applicant's vice-president testified that his company just completed a new labor agreement retroactive to July 1, 1960, which provides for very heavy wage rate increases in the territories here involved. He further said that as a result of the wage increases additional revenues are essential in order to maintain a compensatory operation. He also explained that the present rate structure has grown as operations have been expanded and now contains a number of discrepancies and illogical situations and that the changes proposed here will produce a uniform rate structure. The witness explained that the increase is sought in the package rate instead of the per pound rate so as to maintain applicant's rates below those of parcel post. The proposed change in C. O. D. charges will result in the charge here being the same as assessed by applicant in other parts of the country. The witness testified that a study disclosed that the additional cost of handling a C. O. D. shipment amounts to more than the sought 30-cent charge.

The vice-president explained that the labor contracts in southern California do not expire until November 1, 1960, so that the company does not know what increased costs will be experienced in that area. He said that the increased costs in northern California were so drastic the company felt it could not delay seeking some rate adjustment. For these reasons, he said, the present increase application was limited to shipments originating in northern California.

Applicant's treasurer explained a series of financial statements showing operating results for the 12-month period ending May 31, 1960, and another series showing the same operating results adjusted for the increased labor costs already incurred and the expected increase in revenues under the proposed increased rates. These series had separate statements for applicant's entire operation (including contract carrier service), for the state-wide highway common carrier service, and for the northern California highway common carrier service. Summaries of these statements are tabulated below.

TABLE I

OPERATING RESULTS OF UNITED PARCEL
SERVICE FOR 12-MONTH PERIOD ENDING
MAY 31, 1960

	<u>Total Operations</u>	<u>Total Common Carrier</u>	<u>Northern Calif. Common Carrier</u>
Operating Revenues	\$25,941,879	\$12,555,456	\$4,097,813
Operating Expenses	24,552,984	12,394,069	4,239,601
Net Operating Revenue	\$ 1,388,895	\$ 161,387	\$ (141,788)
Other Income	31		
Net Income ^{1/}	\$ 1,388,926	\$ 161,387	\$ (141,788)
Income Taxes	716,742	78,421	
Net Income ^{2/}	\$ 672,184	\$ 82,966	\$ (141,788)
Operating Ratio ^{2/}	97.41%	99.34%	103.46%
Rate Base	\$ 6,357,743	\$ 3,409,592	\$ 984,461
Rate of Return ^{2/}	10.6%	2.4%	-

() Indicates Loss
^{1/} Before Income Taxes
^{2/} After Income Taxes

TABLE II

TABLE I ADJUSTED FOR INCREASED
EXPENSES AND REVENUES

	<u>Total Operations</u>	<u>Total Common Carrier</u>	<u>Northern Calif. Common Carrier</u>
Operating Revenues	\$26,532,735	\$13,146,312	\$4,688,669
Operating Expenses	25,104,551	12,833,630	4,601,549
Net Operating Revenue	\$ 1,428,184	\$ 312,682	\$ 87,120
Other Income	31		
Net Income ^{1/}	\$ 1,428,215	\$ 312,682	\$ 87,120
Income Taxes	737,172	157,095	39,802
Net Income ^{2/}	\$ 691,043	\$ 155,587	\$ 47,318
Operating Ratio ^{2/}	97.40%	98.82%	98.99%
Rate Base	\$ 6,403,708	\$ 3,446,222	\$1,014,623
Rate of Return ^{2/}	10.8%	4.5%	4.7%

^{1/} Before Income Taxes
^{2/} After Income Taxes

From an examination of the above tables it is clear that applicant requires the increased revenues to offset the increased expenses it has incurred. It is also clear that the revenues expected to be derived from the rate increases sought here will provide only a small margin of profit over the expenses.

It appears, and the Commission finds, that the sought increases in rates and revisions of applicant's tariffs are justified. The application will be granted. Applicant has been granted authority

to depart from the long- and short-haul provisions of the Public Utilities Code and of the State Constitution in publishing its zone rates as non-intermediate in application. Applicant requests similar authority in establishing the increases sought herein. Such deviation will be authorized. Applicant also asks that, in view of it now being subject to the increased labor costs, it be authorized to amend its tariffs on not less than five days' notice to the Commission and to the public. This request will also be granted.

O R D E R

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

IT IS ORDERED:

1. That United Parcel Service be and it is hereby authorized to publish and file, on not less than five days' notice to the Commission and to the public, the increased rates and revised tariff provisions as proposed in Application No. 42626.

2. That in establishing the above authorized rates, rules and regulations, applicant be and it is hereby authorized to depart from the provisions of Article XII, Section 21, of the Constitution of the State of California, and Section 460 of the Public Utilities Code.

3. That 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 7th day of November, 1960.

[Signature] President
[Signature]
[Signature]
[Signature] Commissioners
[Signature]

Commissioner Everett C. McKeage, being necessarily absent, did not participate in the disposition of this proceeding.