SD

Decision No. 62344

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 delivery service from a portion of the territory served.	Application No. 42924

Irving R. Segal of Schnader, Harrison, Segal & Lewis, and Roger L. Ramsey, for United Parcel Service, applicant.
Milton Hallen, for Los Angeles Wholesale Institute, California Shippers Associates, Home Furnishings Institute of San Diego County, and San Diego County Industries Association, Inc., protestants.
W. G. O'Barr, for Western Traffic Conference, Inc., James Quintrall, Arlo D. Poe and J. C. Kaspar, for California Trucking Associations, Inc., Tom Maxwell, for A & B Garment Delivery, interested parties.
William C. Bricca, Grant L. Malquist, Leonard Diamond and Ralph J. Staunton, for the Commission 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 November 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 hearings were held before Examiner William E. Turpen at Los Angeles on December 20, 1960 and January 9, 1961. By order dated March 28, 1961, submission was set aside and the application reopened for further hearing. Such further hearings were held at San Francisco on May 15 and 17, 1961. Evidence was presented on behalf of applicant by its vice president and by its treasurer.

Members of the Commission staff presented a study of applicant's operations, and assisted in developing the record by cross-examination of applicant's witnesses.

United Parcel's rates for the wholesale service consist of a basic charge per package plus a charge per pound. The package charge in the area involved here 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 southern California (that territory south of Gorman on the Ridge Route and south of Santa Barbara on the coast) and to make certain changes in the rate structure applicable to shipments originating in the Los Angeles and San Diego areas. 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.

Changes in rates identical to those sought here were established on shipments originating in northern and central California effective November 28, 1960, pursuant to authority granted in Decision No. 61014, dated November 7, 1960, in Application No. 42626.

At the present time shipments between points both of which are located in Territory "A", as described in applicant's tariffs, enjoy a per pound rate of 3 cents. This territory consists of the coastal area in southern California roughly bounded by Santa Barbara on the north, San Diego on the south, and San Bernardino on the east. Applicant proposes to reduce the size of this territory and substitute therefor two separate territories, within each of which the 3-cent rate will apply for shipments entirely within the same territory. The two new territories correspond in general to the Los

Angeles Drayage Area and the San Diego Drayage Area, respectively.[1] 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 the present Territory "A", and from the Los Angeles, Long Beach and Pasadena 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 Los Angeles, Long Beach and Pasadena 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 November 1, 1960, which provides for very heavy wage rate increases in the territory 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

1/ As filed originally the application proposed only the Los Angeles territory. The San Diego territory was added by amendment at the hearing on December 20, 1960, and is fully described in Exhibit No. 1.

the sought 30-cent charge. He also said that the proposed rate changes will result in a uniform rate structure throughout the State. At present, he stated, shipments between a point in southern California and a point in northern California are assessed different rates depending on the direction of travel.

Applicant's treasurer explained a series of financial statements showing operating results for the 12-month period ending September 30, 1960, and another series for the calendar year 1961 based on the same operating results adjusted for the increased labor costs already incurred and the expected increase in revenues under the proposed increased rates, including the northern California increases authorized by Decision No. 61014. These series had separate statements for applicant's entire operation (including contract carrier service) and for the statewide highway common carrier service. Summaries of these statements are tabulated below.

TABLE 1

OPERATING RESULTS OF UNITED PARCEL SERVICE FOR 12-MONTH PERIOD ENDING SEPTEMBER 30, 1960

	Total Operations	Total Common Carrier
Operating Revenues	$26,514,484	$ 13,015,190
Operating Expenses	25,228,576	12,902,414
Net Operating Revenue	$ 1,285,908	$ 112,776
Other Income	31	
Net Income 1/	$ 1,285,939	$ 112,776
Income Taxes	663,188	58,159
Net Income 2/	$ 622,751	$ 54,617
Net Operating Ratio 2/	97.7%	99.6%
Rate Base	$ 6,465,634	$ 3,562,249
Rate of Return 2/	9.6%	1.5%

1/ Before Income Taxes

2/ After Income Taxes

TABLE II

ESTIMATED OPERATING RESULTS
FOR CALENDAR YEAR 1961

	Total Operations	Total Common Carrier
Operating Revenues	$27,947,891	$14,448,597
Operating Expenses	26,530,086	13,953,778
Net Operating Revenue	$ 1,417,805	$ 494,819
Other Income	31	
Net Income 1/	$ 1,417,836	$ 494,819
Income Taxes	731,775	255,376
Net Income 2/	$ 686,061	$ 239,443
Operating Ratio 2/	97.6%	98.3%
Rate Base	$ 6,574,147	$ 3,653,099
Rate of Return 2/	10.43%	6.55%

1/ Before Income Taxes

2/ After Income Taxes

The operating expenses shown in the above tables include amounts representing a management fee paid to a parent company, United Parcel Service of America. The fee is calculated by taking 4½ percent of the operating revenues and adding to that 50 percent of the net operating revenue before taking out the fee. The transportation engineer from the Commission's staff stated that it was the position of the staff that this expense item should be on a basis of allocated costs rather than as a percentage of revenue. He cited several of the Commission's decisions where certain expense items based on percentages of revenues had been disallowed by the Commission.2/ In these circumstances, the engineer said, it was the staff's conclusion that the applicant had failed to support the entire amount of the increase which it is seeking in this application.

2/ The decisions cited were Dec. No. 41416, Pacific Telephone & Telegraph Co., 48 Cal. PUC 1, 11; Dec. No. 51947, San Diego Transit System, 54 Cal. PUC 408, 413; and Dec. No. 55226, Transcontinental Bus System, et al., 55 Cal. PUC 641, 649.

Following the setting aside of submission and reopening of this proceeding the Commission's Transportation Division made a study of applicant's operating results. The results of this study were introduced into evidence at the May, 1961, hearing by a Commission transportation engineer.

The staff study generally accepted the applicant's book records, but with four major adjustments. The item for management fee was modified to reflect an assignment of costs based upon underlying expenses of the parent company, rather than as a percentage of gross revenue and a portion of net operating revenue. As a result the amount included in the staff study for this item was less than half the amount included by applicant in the figures shown in Table II, above. In his treatment of operating rents paid to affiliated companies, the engineer considered such properties as owned by applicant and substituted expenses on that basis in lieu of rents paid. The engineer extended the remaining service life of the revenue equipment and calculated depreciation on a straight-line basis for the extended life on the remaining dollar value as of the end of 1960, resulting in reduced expenses for depreciation. For the payment of income tax, applicant uses accelerated depreciation, so the engineer figured income tax on the basis as paid.

The staff study has been prepared in the same manner as in other similar instances. It appears, and the Commission finds, that the staff study presents a reasonable estimate of the results which will be attained for the operations here involved.

Table III below is a summary of the estimated operating results as developed by the staff witness for a rate year beginning July 1, 1961, under the rates as proposed in the application.

TABLE III
OPERATING RESULTS ESTIMATED
BY COMMISSION STAFF
FOR YEAR BEGINNING JULY 1, 1961

	Total Operations	Total Common Carrier
Operating Revenues	$28,522,868	$15,033,356
Operating Expenses	24,760,008	13,626,777
Net Operating Revenue	$ 3,762,860	$ 1,406,579
Income Taxes	1,738,525	599,318
Net Income1/	$ 2,024,335	$ 807,261
Operating Ratio1/	92.9%	94.6%
Rate Base	$12,200,700	$ 6,997,900
Rate of Return1/	16.6%	11.5%

1/ After Income Taxes

Applicant pointed out that further wage increases in southern California will become effective November 1, 1961, and accordingly the increased wage cost as a result thereof is included in the staff study for only eight months of the rate year. The record also shows that applicant will experience wage increases of an unknown amount in northern California effective July 1, 1961.

From Table III, above, it appears that authorization of the full increase in rates as sought will produce greater revenues than can be justified. If an increase of two cents in the package rate is authorized instead of the sought three cents, the net income of the total common carrier operation will be approximately $732,000, after income taxes. This would result in an operating ratio of 95.1 percent and a rate of return of 10.4 percent. This amount of increase appears to be reasonable.

It appears, and the Commission finds, that the sought increases in rates and revisions of applicant's tariffs are justified to the extent indicated above. 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 nonintermediate 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. 42924, as amended by Exhibit No. 1 in this proceeding, except that the increase in the rate per package shall not exceed two cents.

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 25th day of JULY, 1961.

President

Commissioners