

ORIGINALDecision No. 72241

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 UNITED PARCEL SERVICE, INC., for)
 authority to make modifications in)
 certain of its rates for common)
 carrier parcel delivery service,)
 resulting in increases and decreases.)

Application No. 49009
 (Filed December 8, 1966)

Roger L. Ramsey and Irving R. Segal, for applicant.
John T. Reed, for California Manufacturers Association;
Lester D. Hinkley, Burman W. Bodel, and Robert L. Bary, for Traffic Managers' Conference of California;
Kenneth C. Delaney, for Los Angeles Chamber of Commerce;
Lester D. Hinkley, for Xerox Corporation;
Norman I. Molaug, for J. C. Penney Company; Philip A. Winter, for Delivery Service Company; interested parties.
Ralph J. Staunton, Robert W. Stich and John W. Henderson, for the Commission staff.

O P I N I O N

United Parcel Service, Inc., operates as a highway common carrier in the transportation of shipments in parcel delivery service between all points in California.^{1/} Applicant proposes to make certain revisions in its California intrastate rate structure. By this application it seeks authority to make the increases in rates and charges which will result in the establishment of the revised structure.

Public hearing was held before Examiner Bishop at Los Angeles and San Francisco on January 31 and February 2, 1967, respectively. Evidence on behalf of applicant was presented through its vice president and secretary and through its assistant secretary and assistant treasurer.

^{1/} Applicant provides like service also between California and other far western states, between points in those states, and in other sections of the country.

The vice president described applicant's present rate structure and explained the proposed changes. The carrier, he said, provides a specialized parcel delivery service which is designed to attract the traffic of shippers who would otherwise send their packages by parcel post. Applicant undertakes to provide rates and charges which are reasonably competitive with those of the latter service. Applicant's rates are based on a flat charge per package, plus an amount per pound. The flat charge per package varies according to the origin territory in which the shipper is located and according to the proportion of the shipper's total deliveries which are made to places of business. Thus, a shipper in southern California, 95 percent or more of whose deliveries are to places of business, pays a basic package charge of 18 cents. A similar shipper in northern California pays a basic charge of 19 cents. The charges grade upward from these amounts to maxima of 36 and 37 cents, respectively, as the percentage of deliveries to places of business declines. The charge per pound ranges from 3 cents to 9 cents, depending upon the geographical zones in which the shipper and consignee are located.

In lieu of the present scale of charges applicant proposes to establish a single charge of 24 cents per package, which would apply throughout the State without regard either to location of the shipper or to the proportion of his deliveries to places of business. The proposed 24-cent charge is the same as now applies on interstate traffic. While this proposal would result in increases and reductions, the great majority of changes would be upward, since, the record shows, the preponderance of applicant's California intrastate common carrier traffic is now subject to the 18-cent or 19-cent package charge.

No increases are proposed in the poundage charges, although they are somewhat lower than the corresponding charge for interstate shipments. While applicant believes increases in these charges would be reasonable, the vice president stated, it was decided that, because of the carrier's urgent need for additional revenues, a possibly extended rate case would be avoided by keeping the poundage charges at their present levels.

Two minor increases are also sought. The present charge of 50 cents per correction for correction of wrong addresses would be increased to 65 cents and the present charge of 30 cents per C.O.D. collected would be raised to 50 cents. The basis for these revisions is that the proposed charges are the same as now apply on applicant's interstate traffic. Historically, the carrier has attempted to keep the charge for correction of a wrong address roughly equivalent to the charge for the original delivery of an average package. According to the vice president an average package weighs approximately ten pounds and the proposed charge of 65 cents is roughly equivalent to the charge for delivery of a 10-pound package an average distance. With respect to the C.O.D. charge, the witness stated that the carrier's studies indicate that the cost of handling a C.O.D. transaction is at least equal to the proposed charge of 50 cents, and is probably even greater.^{2/}

The vice president testified as to the reasons for the increases, particularly in the package charge, currently proposed. The presently applicable charges, he pointed out, were established on November 28, 1960 from points in northern California and on August 14, 1961 from southern California points. Since that time

^{2/} A study made by applicant of a recent 3-month period, involving 375,000 C.O.D. collections, disclosed an average cost of approximately 53 cents per C.O.D.

applicant has sustained very substantial cost increases both in labor expense and in prices of vehicles and other commodities.^{3/} Accordingly, the carrier's principal objective is to obtain added revenue to offset the increased costs and to provide reasonably compensatory rates. Additionally, applicant is endeavoring to make uniform its intrastate rate structure throughout the State and to achieve as much uniformity as practicable between its California intrastate rates and its interstate rates. This latter objective, the witness testified, also will result in simplification in billing practices and in the computation of transportation charges. Moreover, the elimination of the scale of package rates, related to the percentages of deliveries made to places of business, will make unnecessary the periodic review of a customer's traffic to determine whether such percentage has so changed as to require the application of a different rate.

The assistant treasurer introduced a series of exhibits purporting to show: (1) the operating results of applicant, for recent 9-month and 12-month periods, in rendering the services here in issue;^{4/} (2) what those results would have been had the current levels of operating costs been in effect during the entire period; and (3) what the results would have been under current expense levels and under a substitution of the rate structure herein sought for the rates actually applied.

^{3/} The most recent labor cost increases were effective July 1, 1966 in northern California and November 1, 1966 in southern California; the net increase in labor expense was approximately 5 percent.

^{4/} Under highway contract carrier permits from this Commission applicant also provides a retail store delivery service under contract with various department stores and specialty shops in the San Francisco and East Bay metropolitan areas, in the Los Angeles and San Diego metropolitan areas, and in various smaller cities. The revenues and expenses attributable to the contract operation were excluded from the above-described exhibits.

In Decision No. 62344,^{5/} which authorized the last prior adjustment in the rates here under consideration, applicant's book records were generally accepted, subject to adjustment in four major respects, namely:

(I) Adjustment of management fees to reflect assignment of costs based on underlying expenses of the parent company.

(II) Adjustment of operating rents paid to affiliated companies to reflect the costs on an "as owned" basis.

(III) Adjustment of depreciation expense on revenue equipment to reflect normal service life.

(IV) Adjustment of income taxes on the basis paid.

The record discloses that the operating results developed in the above-mentioned series of exhibits reflect adjustments made by the assistant treasurer in the carrier's book figures in respect to management fees and operating rents paid to affiliated companies. Another series of tables (incorporated in a single exhibit) introduced by this witness purports to reflect also the adjustment in income tax figures as required by paragraph (IV) above. In this adjustment recognition was given to the effect of investment tax credit and accelerated depreciation as developed for an income statement of record for system operations. In this latter series of tables no adjustment was made in depreciation expense indicated by paragraph (III) above.

^{5/} Dated July 25, 1961, in Application No. 42924, involving the southern California rates. The most recent adjustment in northern California rates was by Decision No. 61014, dated November 7, 1960 in Application No. 42626.

In the tables below, the operating results for the selected 12-month period, under present and proposed rates, as developed in the second series of tables hereinabove described, are summarized.

TABLE I

Common Carrier California Intrastate Operations
For 12-Month Period Ended September 30, 1966

Operating Revenues	\$26,324,192
Operating Expenses	<u>25,955,338</u>
Net Before Income Taxes	\$ 368,854
Income Taxes	<u>143,484</u>
Net After Income Taxes	\$ 225,370
#Operating Ratio (Percent)	99.1
Rate Base	\$13,069,680
#Rate of Return (Percent)	1.7

After Income Taxes

TABLE II

Operating Results in Table I Adjusted
To Reflect Current Expense Levels

Net Before Income Taxes	\$ (422,458)
Net After Income Taxes	(422,458)
Operating Ratio (Percent)	101.6
Rate of Return (Percent)	0.0

() - Indicates loss

TABLE III

Operating Results in Table I Adjusted to Reflect
Current Expense Levels and Revenues Which Would
Have Been Received Had Proposed Rate Structure
Been in Effect During Test Period

Net Before Income Taxes	\$2,005,600
Income Taxes	<u>780,178</u>
Net After Income Taxes	\$1,225,422
#Operating Ratio (Percent)	95.7
Rate Base	\$13,139,550
#Rate of Return (Percent)	9.3

After Income Taxes

With respect to depreciation expense, the record shows that applicant has calculated this factor, as in the past, based on a service life for revenue equipment of 5-1/2 years. In Decision No. 62344, above, the Commission found that this period did not reflect the service life of the vehicles and adopted a staff adjustment in applicant's figures to correct this error. In the instant proceeding one of the Commission staff representatives, a transportation engineer, pointed out also that in his estimate of operating results the assistant treasurer had not excluded from operating expenses the items of dues (other than dues to trade, technical and professional associations), donations and contributions. In Decision No. 62344 such exclusion had been found proper for rate-making purposes. The record indicates that the amounts here involved are quite small. The engineer further pointed out that adjustments made by the assistant treasurer in his income tax estimates did not reflect the benefits received by applicant's California properties from accelerated depreciation and from investment credits.

The staff engineer stated that applicant's showing and work papers had been reviewed to determine conformance with the practices set forth in Decision No. 62344, as well as with current Commission practices with regard to results of operations and costs showings and that the staff had made a preliminary results of operations study. While the staff had not made a complete analysis, he said, it appeared that even with the additional appropriate adjustments applicant's estimated results of operations would not be more favorable than those allowed in said decision.^{6/}

^{6/} In Decision No. 62344 the Commission adopted the staff's estimated results of operations. These reflected an operating ratio of 95.1 percent and a rate of return of 10.4 percent, both after income taxes.

The record also discloses that the adjustments made by the assistant treasurer in applicant's book records of expenses to reflect current cost levels do not give recognition to changes which occurred on January 1, 1967 in Social Security tax, State unemployment insurance, and workmen's compensation insurance rates. These changes, in the opinion of the witness, tended to further increase operating costs.

Various parties, including Commission staff members, participated in the development of the record through examination of applicant's witnesses. No one appeared in opposition to the granting of the application.^{7/} After extensive cross-examination of the witnesses the representative of Xerox Corporation stated that his company had no objection to the granting of the application. The representative of the Los Angeles Chamber of Commerce said that the Chamber's Freight Traffic Committee had analyzed the application, had found the carrier's cost study to be reasonable and favored the granting of the sought relief. The position of the Commission's Transportation Division was stated by a transportation rate expert. He said that the staff had analyzed the pleading, that it was of the opinion that the rate proposal appeared reasonable and justified, and that, in the absence of any protests, it recommended that the application be granted.

^{7/} Copies of the notice of hearing in this matter were sent to chambers of commerce and other organizations believed to be interested. A representative of California Manufacturers Association testified that he had publicized the substance of the application to the organization's Transportation Distribution Committee (comprising approximately 100 members) and to 100 other members who are on the organization's bulletin mailing list. He received no objections to the proposals.

The issues to be determined in this proceeding are:

(1) Whether the present rates of applicant here in issue are such as to produce revenues sufficient to maintain the integrity and efficiency of the services in question and to give applicant a reasonable return.

(2) If the answer to (1) is in the negative, whether the rates sought to be established will be reasonable.

We find that:

1. Applicant's California intrastate common carrier rates were last revised in 1960 (northern California) and in 1961 (southern California).

2. Since the effective dates of the 1960 and 1961 adjustments periodic increases in operating costs, particularly in labor expense, have been experienced by applicant. The most recent increases were effective July 1, 1966 in northern California and November 1, 1966 in southern California.

3. The net operating revenue, after income taxes, from applicant's California intrastate common carrier operations for the 12-month period ended September 30, 1966 was \$225,370, reflecting an operating ratio of 99.1 percent and rate of return of 1.7 percent.

4. Had the present operating expense levels prevailed during the full 12-month period defined in Finding 3 the operations in question would have resulted in a deficit of \$422,458 and an operating ratio of 101.6 percent.

5. Had the present operating expense levels been experienced during the full 12-month period defined in Finding 3 and had the proposed rates been in effect during the same period the operations in question would have produced estimated net operating revenue of \$1,225,422 after income taxes, reflecting an operating ratio of 95.7 percent and rate of return of 9.3 percent.

6. The operating results set forth in Findings 3, 4 and 5 do not give effect to the basis for calculating the factor of depreciation expense for vehicles, nor to the exclusion of dues, contributions and donations from operating expense, which were found proper in Decision No. 62344 for rate-making purposes.

7. The operating results set forth in Findings 3 and 5 do not reflect, in the development of income tax estimates, the benefits received by applicant's California properties from accelerated depreciation and from investment tax credits.

8. Had appropriate effect been given by applicant to the factors mentioned in Findings 6 and 7, in developing the operating results set forth in Findings 3, 4 and 5, the adjusted results would not have been more favorable than those allowed in Decision No. 62344, above, namely, operating ratio of 95.1 percent and rate of return of 10.4 percent, both after taxes.

9. The operating results set forth in Findings 3, 4 and 5 do not give effect to changes which became effective January 1, 1967 in Social Security tax, State unemployment insurance, and workmen's compensation insurance rates. Had such recognition been given to these changes the effect in said operating results would have been less favorable than as set forth in said findings.

10. Present common carrier rates here in issue are made up of flat charges per package plus an amount per pound. The flat charge per package varies according to the origin territory and to that proportion of the shipper's total deliveries which are made to places of business. These charges range from 18 cents to 36 cents in southern California and from 19 cents to 37 cents in northern California.

11. Under the present rate structure it is necessary for periodic checks to be made of the business of each customer to determine whether current percentages of deliveries to places of business require a change in the rates being assessed.

12. The proposed flat charge of 24 cents per package, to be applied regardless of location of origin point and regardless of the proportion of shipper's deliveries to places of business, is the same as now applies on applicant's interstate traffic.

13. The poundage rates, which applicant does not propose to change, are somewhat lower than the corresponding interstate charges.

14. Establishment of the proposed 24-cent package charge will create uniformity in applicant's rates throughout the State.

15. Establishment of the proposed 24-cent package charge will result in an approach to uniformity of charges on intrastate and interstate traffic.

16. An effect of Findings 14 and 15 will be to simplify billing arrangements and avoid the confusion sometimes resulting from the present rate structure.

17. Establishment of the flat 24-cent package charge will make unnecessary the present periodic review of each shipper's business and will avoid the embarrassment caused when shipper is told that charges will be increased because of a change in the makeup of his shipments.

18. The proposed increased charges for handling C.O.D.'s and for correcting incorrect addresses comport more nearly with the added costs of performing those services than do the present charges.

19. No one has opposed the granting of the application and granting of it is supported by the Freight Traffic Committee of the Los Angeles Chamber of Commerce and by the Commission's Transportation Division staff.

20. Operating results no more favorable than those set forth in Finding 5 are likely to be experienced during the coming year if the application is granted.

21. Operating results under a continuation of present rates will not be such as to maintain the integrity and efficiency of the services in question and to give the carrier a reasonable return.

22. The operating results set forth in Finding 5, as modified by Findings 8 and 9, will be reasonable.

23. The proposed increased 24-cent per package charge will be reasonable and justified.

24. The proposed increased charges for C.O.D. collections and for correction of incorrect addresses will be reasonable and justified.

25. The request to establish the proposed rates on not less than 5 days' notice to the Commission and to the public is reasonable and should be granted.

We conclude that the application should be granted.

O R D E R

IT IS ORDERED that:

1. United Parcel Service, Inc. 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 proposed in Application No. 49009.

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 4th day of APRIL, 1967.

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