

Decision No. 74989

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
EMERY AIR FREIGHT CORPORATION, a)
corporation, for authority to)
increase its rates and charges and)
to modify and alter its rules and)
regulations.)

Application No. 50389
(Filed July 15, 1968;
Amended August 29, 1968)

Frank Loughran, for Emery Air Freight Corporation,
applicant.
A. L. Gielegem, Lloyd Humphrey, Robert W. Stich,
and John W. Henderson, for the Commission staff.

O P I N I O N

Emery Air Freight Corporation (Emery) operates under a certificate of public convenience and necessity as an air freight forwarder for the transportation of general commodities between all points within the State of California, subject to the restriction that all shipments must be transported in part over the lines of an air carrier, and to the restriction that all shipments must originate, terminate or pass through one of the following airports: Oakland Municipal Airport, San Francisco International Airport, Los Angeles Airport or Lockheed Air Terminal (Burbank). In rendering service under its certificate Emery operates through air terminals in addition to those specified above, and provides pickup and delivery service from and to airports. Emery also provides an air freight forwarder service throughout the United States, and from and to foreign countries.

In this application, as amended, Emery seeks an order authorizing it to cancel its air freight tariffs on file with this Commission, and to publish a new tariff in place thereof. Said

tariff will contain rates which are both higher and lower than Emery's present rates. Rate increases will predominate. Emery seeks authority for increases resulting from its proposal and, also, for long- and short-haul departures resulting from the publication of the proposed rates.

Public hearing was held before Examiner Mallory at San Francisco on September 11, 1968. Oral and documentary evidence was adduced on behalf of applicant by its Western Region Vice President and by a member of a firm of certified public accountants employed by applicant. The Commission staff requested and was granted an adjourned hearing in which to present the results of a review of applicant's principal financial records, which are maintained at locations outside this state. Applicant agreed to pay for the transportation expenses incident to this review, rather than to bring the necessary records to a location within this state.^{1/} The adjourned hearing was scheduled for November 4, 1968. The Commission staff filed on October 16, 1968, a document stating that after review of the record, it had been decided that inspection of applicant's accounting records as originally contemplated is not warranted at this time. Therefore, no staff audit has been conducted pursuant to the agreement reached on the record (T.R. 3 and 4). It is the staff's position that the reasonableness of the sought increases can be determined on the record made. Upon the filing of this document, the matter was removed from the hearing calendar, and was taken under submission.

^{1/} Section 791 of the Public Utilities Code requires that each public utility shall keep, at an office in this state, all the books, accounts, papers and records required by the Commission to be kept in this state. The Commission has not specified the books and records which must be kept by air freight forwarders.

Applicant's operating witness testified as follows: applicant, as an air freight forwarder, gathers together the many small shipments of the users of its service and, as a carrier, sends them forward from origin to destination through the service of and principally through the facilities of other air and motor common carriers. In limited areas, such as within its San Francisco and Los Angeles terminal areas, Emery operates a highway common carrier service, and performs its own pickup and delivery service. All equipment used in its California operations, including motor carrier equipment and terminals, are leased. The only property Emery owns in California is the office equipment used in its operations. All terminals and equipment are leased from non-affiliated corporations. Emery does not separate revenue or cost accounts for interstate and intrastate traffic.

Emery began its California operations under tariffs filed in 1954. The tariffs have remained unaltered since operations began. In that period applicant's costs of operation have increased materially. Emery's California intrastate revenues amount to approximately one-tenth of one percent of applicant's total revenues. Inasmuch as Emery's California operations provide such a nominal contribution to total revenues, applicant has not heretofore sought authority to increase its intrastate charges to reflect constantly rising costs in the sixteen-year period since Emery's rates were originally filed.

The requested revision of applicant's tariffs also is sought because Emery intends to computerize its billing systems. This requires a degree of uniformity between tariff provisions for its international, interstate and intrastate tariffs. The

proposed tariff which Emery seeks to file for its California intrastate operations will revise the methods of stating rates and charges to conform with tariffs applicable elsewhere. The studies incident to Emery's review of its intrastate tariffs also brought to its attention that its present intrastate rates are non-compensatory.

The proposed tariff appended to Exhibit 1 incorporates several changes suggested by the Commission's Transportation Division staff prior to the hearing.

Emery's domestic, international and system operations were all conducted at a profit in the year 1967. System revenues, expenses and net income were as follows:

Emery Air Freight Corporation	
<u>System Operations - Year 1967</u>	
Total Revenue	\$ 62,400,493
Total Expense	56,225,236
Operating Income	6,175,257
Taxes and Profit Sharing	2,924,825
Net Income	3,260,432

System operations for the six-months period ending June 30, 1968, showed a net income of \$1,910,363.

A cost analysis of applicant's California intrastate operations was introduced by a certified public accountant. The witness testified that Emery's international, interstate and intrastate services within California are performed by common employees using common facilities. No separate records are maintained of intrastate costs and revenues. For these reasons it was necessary to the development of the cost analysis that intrastate

revenues and intrastate expenses be segregated from system costs and revenues. Such a separation, to the extent possible, was made by the witness for a test period which the witness asserted is reasonably representative of Emery's operations.

An abstract of all intrastate shipments moved between the company's principal terminal areas in California was prepared for a period of one week in December of 1967. The revenue derived from present rates and from proposed rates was determined for the shipments in this sample.

Average pickup and delivery and terminal costs per shipment were calculated, together with a determination of the air freight charges paid by Emery to air carriers. To these estimated costs were added an increment for overhead and administration based on the average costs incurred in Emery's system operations. The resulting total costs for each shipment in the sample were compared with revenues for such shipments under present and proposed rates.

For the shipments included in the sample, present revenues totaled \$2,615.34, and expenses totaled \$3,229.61, reflecting a net loss on such traffic under present rates of \$614.27. The sample revenues under proposed rates amounted to \$3,533.86; said revenues exceeded expenses by \$304.25, producing a ratio of expenses to revenues of 91.4 percent.

On an annual basis, the witness estimated that the proposed rates would yield revenues, expenses and net revenues as follows:

Emery Air Freight Corporation

Statement of Estimated Annual Intrastate Revenues, Expenses and Net Income at Present and Proposed Rates

	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Total Increase</u>
Revenues	\$135,998	\$183,761	\$47,763
Estimated Expenses	167,940	167,940	--
Net Income (or loss)	(31,942)	15,821	47,763

The proposed increases in applicant's rates between various points in the state range from approximately 1 to 53 percent with an average increase of 18 percent. The increases proposed in rates between San Francisco and Los Angeles range from approximately 4 to 40 percent with an average increase of 27 percent. Some reductions are being made in the proposed rates, mainly in the shipments of seven pounds or less. Such shipments comprised 44 percent of the shipments handled during applicant's sample week. Applicant's revenue for the sample week shows an increase under the proposed rates of approximately 29 percent.

The Commission staff position, as expressed in the document filed on October 18, 1968, is as follows: The record is clear that during the period 1954-1968, applicant has experienced substantial increases in expenses connected with its overall California operations and in the charges it must pay to underlying air carriers. Although applicant's cost and revenue showing is not separated as it relates to the California intrastate portion of its traffic, it is apparent that costs have increased and that increases in intrastate

rates are justified. It is the staff's view that the increases proposed in this application do not appear to be excessive when compared with the increases in applicant's overall expenses and when considered in light of current economic conditions.

The Commission finds as follows:

1. Applicant operates as an air freight forwarder in intrastate transportation within California and in interstate and foreign commerce.
2. Applicant's current intrastate rates and rules became effective in March, 1954 and have not been changed materially since that date.
3. The principal elements of applicant's costs of providing service within California have increased since applicant's current rates became effective.
4. The cost study introduced herein reasonably represents the estimated costs of providing intrastate air freight forwarder service by applicant.
5. In the aggregate, revenues from current rates fail to cover the estimated costs of providing service within California.
6. In the aggregate, revenues to be received from proposed rates will exceed the estimated costs of providing intrastate service by approximately 9 percent.
7. The rate increases proposed in the application are justified.

The Commission concludes that the application should be granted, and that applicant should be authorized to depart from the long- and short-haul provisions of the Public Utilities Code to the extent necessary to publish the revised rates authorized herein.

O R D E R

IT IS ORDERED that:

1. Emery Air Freight Corporation, a corporation, is authorized to establish the increased rates and charges as proposed in Application No. 50389, as amended.

2. Tariff publications authorized to be made as a result of the order herein may be made effective not earlier than ten days after the effective date of this order on not less than ten days' notice to the Commission and to the public.

3. The authority herein granted is subject to the express condition that applicant will never urge before the Commission in any proceeding under Section 734 of the Public Utilities Code or in any other proceeding, that the opinion and order herein constitute a finding of fact of the reasonableness of any particular rate or charge, and that the filing of rates and charges pursuant to the authority herein granted will be construed as a consent to this condition.

4. Applicant, in establishing and maintaining the rates authorized hereinabove, is authorized to depart from the long- and short-haul provisions of Section 460 of the Public Utilities Code to the extent necessary to comply with this order. Schedules containing the rates published under this authority shall make reference to this order.

5. The authority granted herein shall expire unless exercised within ninety days after the effective date of this order.

The effective date of this order shall be twenty days after the date hereof.

Dated at San Francisco, California, this 26th day of NOVEMBER, 1968.

William S. ...
President

William La ...

Commissioners

Commissioner A. W. Gatov, being necessarily absent, did not participate in the disposition of this proceeding.

Commissioner Fred P. Morrissey, being necessarily absent, did not participate in the disposition of this proceeding.