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Decision No. 78549

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
UNITED PARCEL SERVICE, INC., for)
authority to increase certain of its)
rates for common carrier parcel)
delivery service.)

Application No. 52362
(Filed December 21, 1970)

In the Matter of the Investigation)
into the rates, rules, regulations,)
charges, allowances and practices)
of all common carriers and highway)
carriers relating to the transpor-)
tation of any and all commodities)
between and within all points and)
places in the State of California)
(including, but not limited to,)
transportation of Minimum Rate)
Tariff No. 2).)

Case No. 5432 OSH 628
(Filed February 9, 1971)

And related matters.

Case No. 5439 OSH 141
Case No. 5441 OSH 222
(Filed February 9, 1971)

Roger L. Ramsey and Irving R. Segal,
Attorneys at Law, for United Parcel
Service, Inc., applicant.
Arthur D. Maruna, H. F. Kollmyer, and
A. D. Poe, Attorney at Law, for
California Trucking Association,
interested party.
Robert W. Stich, Alan Silvius,
H. H. Webster and A. L. Gielegem,
for the Commission staff.

INTERIM OPINION

United Parcel Service, Inc. is a statewide highway common carrier of parcels (small packages). It also operates between California and other western states. In this application it seeks to increase its wholesale parcel rates by 3 cents per package and

one-half cent per pound. The Orders Setting Hearing in the captioned minimum rate proceedings were issued for the purpose of determining whether certain parcel rates presently maintained in the Commission's minimum rate tariffs should be adjusted if the application herein is granted. The Commission has previously found that United Parcel Service, Inc. is the rate-making carrier with respect to the wholesale parcel delivery rates in question.

The present wholesale parcel rates of United Parcel Service, Inc. were authorized as interim rates by Decision No. 77275 dated May 22, 1970, in Application No. 51871. The application herein requests that further proceedings in Application No. 51871 be discontinued, as the additional relief sought in said application has been incorporated in the request in Application No. 52362.

Public hearing in these proceedings was held before Examiner Mallory at San Francisco on February 25, 1971. At the hearing, representatives of the Commission's Finance and Accounts Division and Transportation Division requested additional time to complete the staff studies undertaken in connection with the instant application. It was agreed that applicant would present its case-in-chief; that, except for certain preliminary questions, cross-examination thereon would be conducted at a further hearing to be scheduled; and that staff studies would also be presented at said further hearing. Applicant requested, pending receipt of additional evidence and final action thereon, that it be granted an interim increase of 2 cents per package and one-half cent per pound. The Commission staff representatives had no objection to the granting of interim relief.^{1/} The

^{1/} The Finance and Accounts Division representative, however, did not oppose the granting of interim relief, but with the condition that interim rate level earnings exceeding those under rates finally granted be subject to refund.

request for interim relief was taken under submission on February 25, 1971 and the proceedings were set for adjourned hearing on March 31, 1971.

Evidence was presented by applicant's Controller for its Pacific Region and by the President of applicant's parent company, United Parcel Service of America, Inc. The first witness presented in evidence exhibits setting forth a description of applicant's operative rights; an outline showing the principal features of applicant's parcel service operations; a comparison of applicant's services with parcel post service rendered by the United States Post Office; a statement of applicant's present rates; a balance sheet showing applicant's system financial condition as of September 30, 1970; an income statement for applicant's system operations for the year ended September 30, 1970; a statement of increases in wage rates and fringe benefits for applicant's teamster union employees in Northern and Southern California locals incurred since applicant's last permanent adjustment in rates pursuant to Decision No. 75592, dated May 20, 1969, in Application No. 50760; an income statement for the year ended September 30, 1970 for applicant's intrastate common carrier operations; an adjustment of the foregoing to reflect the full amount of the revenue increase sought herein and the increased expenses resulting from higher wages and fringe benefits effective through August 1, 1971 in collective bargaining agreements; income statements for a test year commencing January 1, 1971 reflecting operations under present and proposed rates; and August 1, 1971 levels of wage rates; a statement showing the cost (less depreciation) of the operating property used, in part, by applicant in performing its California intrastate common carrier operations; and statements showing return on net investment including working capital.

The following table is a summary of applicant's actual results of its California intrastate common carrier operations for the twelve-month period ending September 30, 1970 as shown in its Exhibit 8:

Table 1

United Parcel Service, Inc.
California Common Carrier Operations
Income Statement
October 1, 1969 to September 30, 1970

Operating Revenues	\$45,537,087
Operating Expenses	42,687,882
Net Operating Revenues	2,849,205
Income Taxes	1,383,503
Net Income	1,465,702
Operating Ratio:	
Before Taxes	93.74%
After Taxes	96.78%

Applicant's Exhibit 7 shows that it has experienced substantial wage increases pursuant to collective bargaining agreements, which are not reflected in Table 1, above, and will experience additional increases in wages on July 1, 1971 in Northern California and on August 1, 1971 in Southern California.

The operating results in Table 1 were adjusted in applicant's Exhibit 9 to show for a full year the effect of the additional revenue from the interim increase granted by Decision No. 77275 (supra) and the effect of wage increases effective November 1, 1969 in Southern California and April 1, and July 1, 1970 in Northern California. Exhibit 9 shows that after said adjustments applicant's operations would have been conducted at a profit of \$1,719,870 represented by operating ratios of 92.91 percent before taxes and 96.35 after taxes. Further adjustments to said data were

made in applicant's Exhibit 10 (Col. 2) to give effect to wage increases effective November 1, 1970 in Southern California and January 1, 1971 in Northern California. If said wage increases had been in effect throughout the year ended September 30, 1970, applicant's operations would have been conducted at a loss of \$8,799, resulting in an operating ratio of 100.02 percent.

Applicant's estimates of operations for a test year commencing January 1, 1971 reflect all the known wage increases that will take place in 1971. Said estimates also reflect for the full year the revenues sought herein from the rates requested in the application. For the purposes of depicting applicant's test year revenues and expenses with respect to its request for interim relief, said test year estimates should be adjusted to give effect only to those wage increases actually in effect at this time and the revenues from the level of the sought interim rates. The following table shows a summary of applicant's estimated results of operations for a 1971 test year adjusted as indicated above.

Table 2

United Parcel Service, Inc. Estimated
Operating Results For California Intra-
state Common Carrier Operations
under Proposed Interim Rates

<u>Revenues</u>		
From Current Rates (Ex. 10)	- \$47,137,755	
From Interim Rates (Ex. 11)	- 4,025,441	
Total		<u>\$ 51,163,196</u>
<u>Expenses:</u>		
For Year Ended 9-30-70 (Ex. 9)-	\$43,794,468	
Wage Increases effective		
Nov. 1, 1970 and Jan. 1, 1971		
(Ex. 10)	- 3,352,086	
Operating Taxes on added Revenue	63,068	
Total		<u>\$ 47,209,622</u>
<u>Net Operating Revenues</u>		\$ 3,953,574
<u>Income Taxes</u>		
State (10.225%)	- \$ 404,256	
Federal (42.7%)	- 1,515,571	
Total		<u>\$ 1,919,827</u>
<u>Net Operating Income</u>		\$ 2,033,747
<u>Operating Ratio</u>		
Before Taxes		92.27%
After Taxes		96.02%

California Trucking Association (CTA) and the Commission's Transportation Division request that parcel delivery rate items contained in the Commission's minimum rate tariffs be increased concurrently with any increase granted to United Parcel Service, Inc.; and that common carriers which publish rates on the level authorized to United Parcel Service, Inc. under alternative application of common carrier rate provisions of said tariffs also be authorized to increase their rates to the level authorized to United Parcel Service, Inc. CTA and the Commission's Transportation Division urge that United Parcel Service, Inc. continues to be the rate-making carrier in the parcel delivery field; thus its rates should continue to set the floor for competing carriers.

Findings

1. United Parcel Service, Inc. was last authorized to increase its rates on a permanent basis by Decision No. 75692 dated May 20, 1969. Said decision found that rate levels which would produce an operating ratio of 92.46 percent before income taxes and 95.67 percent after income taxes were reasonable for this carrier.

2. United Parcel Service, Inc. was authorized to further increase its rates on an interim basis by Decision No. 77275 dated May 22, 1970, in order to offset wage increases effective on November 1, 1969 in Southern California and March 31, 1970 in Northern California. Said decision found that earnings producing an operating ratio of 95.01 percent before income taxes would not be excessive.

3. Applicant has incurred additional increases in its wage costs pursuant to collective bargaining agreements. Said increased wage costs were effective November 1, 1970 in Southern California and January 1, 1971 in Northern California.

4. Applicant's showing indicates that its operations will be conducted at a loss under the rates authorized by Decision No. 77275 and its present level of wage costs. Applicant is in immediate need of additional revenues to offset such increased labor costs. The foregoing represents a situation wherein interim rate relief is warranted.

5. Applicant has requested that, pending final determination of the issues in this proceeding, it be granted an interim increase of 2 cents per parcel and 1/2 cent per pound in its common carrier rates for wholesale parcel delivery.

6. The operating results set forth in Table 2, above, are reasonable for the purpose of evaluating applicant's request for interim relief. Table 2 indicates that under the interim rates proposed herein applicant's earnings from its intrastate wholesale parcel common carrier services will result in operating ratios of 92.27 percent before income taxes, and 96.02 percent after income taxes. Said interim earnings will not be excessive.

7. The increases resulting from the interim rates proposed by applicant are justified.

8. In proceedings in Cases Nos. 5432, 5435, 5439, and 5441, the Commission has heretofore found that for certain types of wholesale parcel delivery service, applicant is the rate-making carrier for the purpose of establishing minimum rates, and has included in certain minimum rate tariffs rates for wholesale parcel delivery on the same level as those maintained by United Parcel Service, Inc. as a highway common carrier.

9. The just, reasonable and nondiscriminatory minimum rate for wholesale parcel delivery service is, and for the future will be, the per package and per pound rates authorized herein to United Parcel Service, Inc.

10. The relationship between applicant's rates and said rates of other common carrier rates should be continued and maintained. (See Decision No. 72918, dated August 15, 1967, in Case No. 5432.)

Conclusions

We conclude that:

1. United Parcel Service, Inc. should be authorized to establish the rates proposed as interim herein, on five days' notice.

2. Minimum Rate Tariffs 1-B, 2, 9-B, and 19 should be amended by separate order to reflect the wholesale parcel delivery rates authorized to United Parcel Service, Inc. herein.

3. Common carriers now maintaining, under outstanding authorizations permitting the alternative use of common carrier rates, parcel delivery rates comparable to the rates of United Parcel Service, Inc., but otherwise below the minimum rates established by the Commission, should be authorized and directed to increase such rates, to the level of the increased rates of United Parcel Service, Inc. authorized herein, or to the level of the minimum rates specified and established in the minimum rate tariffs, whichever is the lower.

4. Common carriers should be authorized to continue to depart from the long- and short-haul provisions of Section 460 of the Public Utilities Code to the extent necessary to establish the rate increases provided for in the preceding paragraphs.

5. Application No. 51871 should be discontinued, as requested by applicant.

INTERIM ORDER

IT IS ORDERED that:

1. United Parcel Service, Inc. is authorized to establish the following increased rates and charges:

Amend Item No. 120-E of Local Parcel Tariff P.U.C. No. 17 by canceling paragraphs (a) and (b) of said Item and substituting therefor the following paragraphs:

- (a) The rate for packages moving wholly within Territory A, wholly within Territory B, or wholly within Territory C, as described in Item 25, shall be 38 cents per package plus 3 1/2 cents for each pound or fraction thereof of its weight.
- (b) The rates for all packages, except packages covered by paragraph (a) above, shall be 38 cents per package plus the following rates for each pound or fraction thereof of its weight.

<u>Zone</u>	<u>Rate Per Pound or Fraction Thereof</u>
2	4 1/2 ¢
3	5 1/2 ¢
4	7 1/2 ¢
5	9 1/2 ¢

(To determine the applicable zone between any two California points, consult governing publication referred to in Item 10 hereof.)

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

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

4. Common carriers maintaining, under outstanding authorizations permitting the alternative use of common carrier rates, parcel delivery rates comparable to the rates maintained by United Parcel Service, Inc., but otherwise less than the minimum rates established by the Commission applicable thereto, are authorized and directed to increase such rates to the level of the rates authorized in paragraph 1 hereof, or to the level of the minimum rates specified and established in the Commission's minimum rate

tariffs, whichever is the lower. Tariff publications authorized and required to be made by common carriers as a result of the order herein may be made effective not earlier than the fifth day after the effective date of this order, on not less than five days' notice to the Commission and to the public, and shall be made effective not later than May 22, 1971.

5. Common carriers, in establishing and maintaining the rates authorized hereinabove, are hereby authorized to depart from the provisions of Section 460 of the Public Utilities Code to the extent necessary to adjust long- and short-haul departures now maintained under outstanding authorizations; such outstanding authorizations are hereby modified only to the extent necessary to comply with this order; and schedules containing the rates published under this authority shall make reference to the prior orders authorizing long- and short-haul departures and to this order.

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

Dated at San Francisco, California, this 13th day of APRIL, 1971.

Chairman

William S. Lyons, Jr.

[Signature]

Vernon L. Stinger

[Signature]

Commissioners

I dissent. I would not grant this interim relief.

R. Robinson, Jr. Chairman.