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ORIGINAL

Decision No. 81692

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. 53615 (Filed September 29, 1972; amended October 13, 1972 and January 2, 1973)
In the Matter of the Investigation into the rates, rules, regulations, charges, allowances and practices of all common carriers, highway carriers and city carriers relating to the transportation of any and all commodities between and within all points and places in the State of California (including, but not limited to, transportation for which rates are provided in Minimum Rate Tariff No. 2).	Case No. 5432, OSH 725 (Filed December 5, 1972)
And Related Matters.	Case No. 5439, OSH 172 Case No. 5441, OSH 259 (Filed December 5, 1972)

Irving R. Segal and Roger L. Ramsey, Attorneys at Law, for United Parcel Service, Inc., applicant.
Arthur D. Maruna, H. Hughes, and A. D. Poe, Attorney at Law, for California Trucking Association, interested party.
Milton J. DeBarr, Clyde Neary, and John F. Specht, for the Commission staff.

INTERIM OPINION

By this application, as amended, United Parcel Service, Inc., a highway common carrier of parcels, seeks authority to establish increases of 3 cents per package and one-half cent in the rate per pound in its rates for the transportation of parcels between points in California. It requests, as an interim measure pending hearing and decision on its application, that the Commission authorize a portion of the above-requested increase, namely one-half cent in the rate per pound, leaving the remainder of the requested increase of 3 cents in the rates per package to be determined after full hearing.

A public hearing was held February 13, 1973 before Examiner Thompson at San Francisco where evidence was received with respect to applicant's request for interim relief.

Applicant is a subsidiary of United Parcel Service of America, Incorporated. The parent company performs management services for applicant at a fee. Applicant leases terminal properties from an affiliated company, Service Plants Corporation. Applicant is the operating company performing interstate and intrastate transportation of parcels as a common carrier in California, Oregon, Washington, and portions of Idaho, Arizona, and Nevada. Applicant conducts a retail store delivery operation as a contract carrier in a number of cities and metropolitan areas. A determination of the operating results from California intrastate common carrier operations necessarily requires separations of revenues and separations and allocations of expenses from the book records maintained by applicant, as well as the analysis of transactions between applicant and its affiliates, for the purpose of assigning reasonable costs in substitution for fees and rentals paid to affiliates. The matters of separations and allocations of expenses, and the determination of reasonable costs in lieu of the recorded amounts of expense paid to affiliates, have been issues in prior proceedings involving the rates of applicant and have been the subject of discussions between applicant and members of the Commission staff. For the purpose of its showing with respect to its request for interim relief, applicant followed procedures for expense allocations suggested by the staff in the development of estimates of projected operating results from California intrastate common carrier operations for a future rate year under present rates and at the proposed interim increased rates. Those projected results are set forth in Table 1.

TABLE 1

Projected Results of California Intrastate Common Carrier Operations of United Parcel Service, Inc. for a Rate Year Commencing January 1, 1973, Under Present Rates and Under Proposed Interim Increased Rates

	At Present Rates	At Proposed Interim Rates
Operating Revenues	$56,278,458	$59,425,527
Operating Expenses		
Equipment Maintenance	3,773,422	3,773,422
Transportation	24,476,887	24,476,887
Terminal	17,847,470	17,847,470
Traffic	645,024	645,024
Insurance & Safety	1,648,480	1,648,480
Administrative & General	4,717,652	4,717,652
Depreciation	1,176,279	1,176,279
Operating Taxes & Licenses	3,562,490	3,593,585
Total Expenses	$57,847,704	$57,878,799
Net Operating Revenue	$(1,569,246)	$ 1,546,728
Income Taxes	-	311,459
Net Income	$(1,569,246)	$ 1,235,269
Rate Base	$17,397,226	$17,397,266
Rate of Return	-	7.10%
Operating Ratio Before Taxes	102.79%	97.40%
Operating Ratio After Taxes	102.79%	97.92%

(Red Figure)

Since 1961, the Commission has authorized applicant to increase rates in five proceedings. The operating ratios and rates of return approved by the Commission are:

Application Number	Decision Number	Date Issued	Operating Ratio %	Rate of Return %
42924	62344	6-25-61	95.1	10.4
49009	72241	4-4-67	95.49	11.0
50030	74488	8-6-68	95.49	11.1
50760	75692	5-20-69	95.6	12.0
52362	78811	6-22-71	97.1	9.05

Applicant is of the opinion that it will not achieve the projected results of 97.92 percent operating ratio or 7.10 percent rate of return for the reasons that the results are predicated upon the rates being effective for the entire year of 1973, the projected expenses consider only two months' operation at wage rates in Southern California which will increase effective November 1, 1973 under existing collective bargaining agreements, and consider wage rates for Northern California in effect January 1, 1973. Applicant's contract with drivers in Northern California expires June 30, 1973, and it anticipates that a new contract will call for increases in wages which are not reflected in its projection of expenses.

Applicant considers that its principal competition is parcel post provided by the United States Postal Service. Its proposed rates are lower than the parcel post rates.

Service of the application was made in accordance with the Commission's procedural rules. Notice of the filing of the application and notice of hearing appeared in the Commission's Daily Calendar. Notice of hearing was mailed by the Commission to 63 parties, including all parties known by the Commission to have an interest in the proceeding. No protests have been received.

At the hearing the Commission staff asserted that applicant is not in an adverse financial condition which would necessitate emergency relief in the form of an interim rate increase. Applicant is in a sound financial condition; however, it has shown that, even with the development of projected operating results by methods that may be adverse to the position it may take at future hearings in this application, it will incur a loss from California intrastate common carrier operations at the present rates and that at the proposed interim increased rates it will achieve results less favorable than had been approved by the Commission in the last five proceedings involving its rates.

The staff also asserted that the projected results do not take into consideration productivity gains. This assertion was based upon volume of traffic and not upon any technological advances in the manner of transporting traffic. The total California intrastate common carrier package volume for 12-month periods ended September 30 for the past three years were:

1970 - 56,325,674 packages
1971 - 56,351,506 packages
1972 - 60,046,476 packages

The projected results are based upon operations conducted for the 12 months ended September 30, 1972 and therefore the projected revenues are based upon the transportation of 60,046,476 packages. Why there was an increase in the number of packages tendered applicant during the 12-month period ended September 30, 1972 over the prior 12 months is not explained. Applicant has not expanded its California intrastate common carrier operations during the three years indicated. The statistics of packages tendered do not indicate a trend or growth pattern. It is well known that there is a relationship between traffic volume and general economic conditions. The more apparent reason for the increase in the tender of packages would appear to be an improvement in the general economic climate during those 12 months as compared to the prior periods. A forecast of a further increase in the number of packages that will be tendered applicant apparently would have to be predicated upon a forecast of a further improvement in the general economic climate. We cannot prognosticate that result and therefore do not consider a volume of traffic in excess of 60,046,476 packages to be an expected and obtainable productivity gain.

We find that:

1. United Parcel Service, Inc. is engaged in the transportation of property in parcels or packages in California and in other states. It transports parcels for retail stores as a highway contract carrier and for entities other than retail stores as a highway common carrier.

2. Applicant maintains rates for its highway common carrier service in its Local Parcel Tariff, Cal. P.U.C. No. 18, and requests authority to increase those rates by 3 cents in the rate per package and by one-half cent in the rates per pound, and pending determination by the Commission of that request, it seeks emergency interim authority to make effective the one-half cent increase in the rates per pound.

3. A duly noticed hearing was held with respect to applicant's request for the emergency interim increase and all persons and parties were accorded full opportunity to participate therein.

4. For the test year commencing January 1, 1973 applicant will conduct its highway common carrier operations at a loss at present rates, and for that test year at the proposed interim increase of one-half cent in the rates per pound, applicant's highway common carrier operation would provide a rate of return less than 7.10 percent and an operating ratio in excess of 97.92 percent, which rate of return and operating ratio are less favorable to applicant than have been authorized and approved by the Commission in the last five prior rate cases involving applicant.

5. The proposed interim rate increase is cost-justified and does not reflect future inflationary expectations.

6. The interim increase is the minimum required to assure continued adequate and safe service.

7. The interim rate increase will achieve the minimum rate of return and the maximum operating ratio needed to attract capital at reasonable costs and not to impair the credit of the carrier.

8. The interim rate increase takes into account expected and obtainable productivity gains.

9. The rates resulting from the proposed interim increase are lower than the rates for parcel post between the same points in California.

10. The proposed interim rate increase has been shown to be justified.

11. The rates of applicant have heretofore been adopted and approved as minimum rates for parcel delivery service by highway carriers.

We conclude that applicant should be authorized to establish the proposed interim increase in rates on not less than five days' notice, that Minimum Rate Tariffs 1-B, 2, 9-B, and 19 should be amended by separate order to reflect the proposed interim wholesale parcel delivery rates, and that common carriers now maintaining parcel delivery rates comparable to the rates of applicant but otherwise lower than the established minimum rates should be authorized and directed to increase such rates so as to preserve competitive relationships.

INTERIM ORDER

IT IS ORDERED that:

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

Amend Item 150-A of Local Parcel Tariff Cal. P.U.C. No. 18 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 39 cents per package plus 4 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 39 cents per package plus the following rates for each pound or fraction thereof of its weight.

Zone	Rate Per Pound or Fraction Thereof
2	5¢
3	6¢
4	8¢
5	10¢

(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 on not less than five days' notice to the Commission and to the public and in no case prior to August 13, 1973.

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 thirty days after the effective date of the tariff publications made pursuant to the authority granted in Ordering Paragraph 1.

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 August 8, 1973.

Dated at San Francisco, California, this 31st day of JULY, 1973.

William Symons Jr.
President

Commissioners

Commissioner Vernon L. Sturgeon, being necessarily absent, did not participate in the disposition of this proceeding.

Commissioner J. P. Vukasin, Jr., being necessarily absent, did not participate in the disposition of this proceeding.