

Decision No. 84012**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. 55317
(Filed November 15, 1974)

INTERIM OPINION

United Parcel Service, Inc. (UPS), a highway common carrier, seeks authority under Sections 454 and 451 of the Public Utilities Code to establish on less than statutory notice certain increased rates applicable to its intrastate common carrier parcel delivery service between points in California.^{1/}

The rates and charges in question were last increased pursuant to Decision No. 83217 dated July 30, 1974 in Application No. 54517. UPS alleges that the tariff changes requested herein are necessary to offset the substantial increases in wage rates, fringe benefits, and nonpayroll expenses which have been incurred since that time, and which applicant will experience during the year 1975.

1/ Applicant seeks authority to make the following tariff changes effective as soon after January 1, 1975, as is possible:

- A. Amend Item No. 45 of Local Parcel Tariff P.U.C. No. 18 by increasing the charge for correction of wrong addresses from 65 cents to 85 cents.
- B. Amend Item No. 80-A of Local Parcel Tariff P.U.C. No. 18 by increasing the charge for each C.O.D. received for collection from 65 cents to 85 cents.
- C. Amend Item No. 150-D of Local Parcel Tariff P.U.C. No. 18 by increasing the rate per package from 45 cents to 60 cents.

The application contains the exhibits required by Rule 23 of the Commission's Rules of Procedure. These exhibits show the results of UPS's California intrastate operations for the year ended June 30, 1974, with the ratemaking adjustments adopted as reasonable in Decision No. 83217, supra. These results of operations have been further adjusted to show the effect thereon of the increases in wages and fringe benefits which are provided in labor agreements between UPS and its unionized employees. At the time of filing of the application, the Southern California Teamster labor contract was under negotiation. The estimate of wage rates set forth in Exhibit C to the application are based on offers made by UPS during wage negotiations. By letter dated December 16, 1974 (made part of the record herein as Exhibit 1) applicant's attorney advised the Commission as follows:

"Exhibits I and K attached to the Application show the projected results of operations during the year commencing January 1, 1975, at the proposed increased level of rates. . . .

"The increases in Southern California labor expense during 1975 projected in Exhibits I and K were based on a firm offer in writing made by UPS to the Union during the course of the negotiations. This offer, representing an increase of approximately 19% over the two-year period, was rejected by the Union members, however, and a general strike ensued in Southern California which lasted three weeks.

"Further negotiations were conducted during the strike resulting in a settlement and acceptance of a new contract representing an increase of more than 24% over the two-year period.

"Amended exhibits reflecting additional expense resulting from the new contracts, which was not included in Exhibits I and K, will be prepared and filed prior to the hearing on our Application. We preliminarily estimate this additional expense will amount to about \$700,000.00."

The following table sets forth estimated operating results for a test year, adjusted to show the added costs of labor, fringe benefits, and non-labor expense increases, and the rate increases proposed in the application:

TABLE 1
(Exhibit I of Application No. 55317)

United Parcel Service, Inc.
California Intrastate Common Carrier Operation
Income Statement

Projected for Twelve Months Commencing January 1, 1975
Adjusted to Show Results of Proposed Increases
And the Effect of Assumed Increase in
Volume, and Increase in Nonpayroll Expense (Excluding
Business Service Fee)

	(1) Exhibit G Column 3	(2) Projection (Note 1)
Packages	68,655,732	76,000,000
Operating Revenue	\$86,989,708	\$96,292,000
Operating Expenses		
Payroll and Fringe Benefits	\$60,311,295	\$66,766,000
Nonpayroll	16,298,759	19,516,800
Business Service Expense	<u>1,703,913</u>	<u>1,898,222</u>
Total Expense	\$78,313,967	\$88,181,022
Net Operating Revenues	\$8,675,741	\$8,110,978
Income Taxes		
State	\$ 717,312	\$ 659,790
Federal	<u>3,050,147</u>	<u>2,770,971</u>
Total Income Taxes	\$3,767,459	\$3,430,761
Net Income	\$4,908,282	\$4,680,217
Operating Ratio Before Income Taxes	90.03%	91.58%
Operating Ratio After Income Taxes	94.36%	95.14%

Note 1:

Packages - Assumed intrastate volume for 1975.

Revenue - Assumed intrastate volume @ Column 1 average revenue per package including proposed increase effective January 1, 1975.

Expense - Payroll and Fringes - Assumed intrastate volume @ Column 1 average payroll and fringe benefit expense per package.

Nonpayroll Expense - Reflects result of increasing Column 1 expense per package by 8.17% based on average increase in intrastate nonpayroll expense per package over last 4-year period, and multiplying by 76 million packages.

Business Service Expense - 2.20% of payroll and nonpayroll expense.

The following table depicts the rate of return for the test year on estimated rate base from the rate increase proposed herein:

TABLE 2

(Exhibit K of Application No. 55317)

United Parcel Service, Inc.

California Intrastate Common Carrier Operation

Summary of Earnings

For Twelve Months Commencing January 1, 1975

Depreciated Value of Operating Properties	\$33,203,972
Provision for Working Capital	<u>2,558,883</u>
Rate Base	\$35,762,855
Net Income Per Table 1 (Exhibit I)	\$4,680,217
Rate of Return	13.1%

The Commission's Transportation Division has reviewed the application and has advised the Commission in a memorandum (made part of the record as Exhibit 2) as follows:

"The Transportation Division staff is making a study and will present evidence at the hearing which should be set in this matter. A Supplemental Advice of Participation will be issued when the staff is ready for hearing.

"Pending the hearing, it is the recommendation of the Transportation Division staff that in the absence of protest the Commission issue an ex parte order granting the applicant interim increases of 10 cents in the charges for:

- "a. correction of wrong addresses (Item 45)
- "b. each C.O.D. received for collection (Item 80A)
- "c. the rate per package (Item 150 D)."

The Commission's Finance and Accounts Division concurs in the recommendations set forth above.

Notice of the filing of the application appeared on the Commission's Daily Calendar and the application was served pursuant to Commission rules. No protest has been filed.

A. 55317 ltc

In the circumstances, the Commission finds:

1. Applicant was last authorized to increase its rates and charges for its California intrastate common carrier package service pursuant to Decision No. 83217 dated July 30, 1974 in Application No. 54517. That decision was based on estimated operating revenues, expenses (including taxes and depreciation), rate base, rate of return, and operating ratio under the rates authorized therein for a test year ended December 31, 1974.

2. The application herein shows that UPS will incur additional operating expenses in 1975 and thereafter resulting in higher wages and fringe benefits paid to its employees pursuant to labor union agreements.

3. In Exhibit F to the application UPS estimates that it will incur a net operating loss of \$2,177,385 for a test year ended December 31, 1975, giving effect to present rates, projected increased traffic, and the increases in wage costs which will become effective in the test year. Applicant is in need of immediate rate relief.

4. Table 1 in the preceding opinion sets forth UPS's estimate of operating results for the year 1975 as set forth in Exhibit F, further adjusted to show effect of the full rate increase proposed herein and for projected increases in nonpayroll expenses. That table shows that UPS would enjoy a net income from its California package operations of \$4,680,217 and on operating ratio (after taxes) of 95.14 percent.

5. Adjustment of the income statements included in the application to reflect the interim rate increase recommended by the staff, and the elimination of projected increases for nonpayroll expenses would show the following:

A. 55317 ltc

Operating Revenue	\$83,261,406
Operating Expenses	<u>78,301,638</u>
Net Operating Revenue	\$ 4,959,768
State & Federal Income Taxes	\$ 1,803,385
Net Income	\$ 3,156,383
Rate Base	\$35,762,855
Rate of Return	8.83%
Operating Ratios	
Before Taxes	94.04%
After Taxes	96.21%

6. Increased operating revenues shown in the foregoing finding amount to \$7,161,086. The annual increased operating expenses from wage and fringe benefits without revision for the Southern California wage settlement as estimated by UPS amount to \$5,762,825 in the 1975 test year.

7. The operating results, including rate of return and operating ratio set forth in Finding 5, are not more favorable than those resulting from increased rates authorized in Decision No. 83217, supra.

8. The following interim increase in rates and charges is justified, pending hearing:

Local Parcel Tariff P.U.C. No. 18

Item 45 - Increase the charge from 65 cents to 75 cents.

Item 80-A - Increase the charge from 65 cents to 75 cents.

Item 150-D - Increase the rate per package from 45 cents to 55 cents.

The Commission concludes that UPS should be granted interim rate relief as provided by the order which follows.

INTERIM ORDER

IT IS ORDERED that:

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

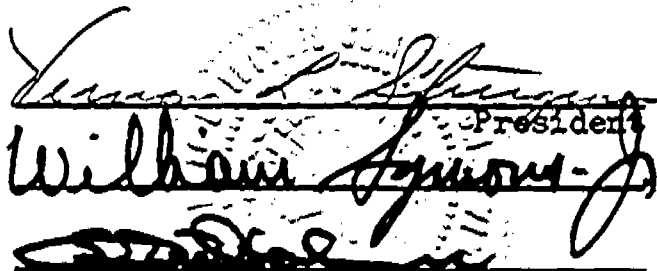
- (a) Amend Item 45 of Local Parcel Tariff Cal. P.U.C. No. 18 by establishing a charge of 75 cents for correction of wrong addresses.
- (b) Amend Item 80-A of said tariff by establishing a charge of 75 cents for each C.O.D. received for collection.
- (c) Amend Item 150-D of said tariff by establishing a rate per package of 55 cents.

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 of this order on not less than five days' notice to the Commission and to the public.

3. The authority granted herein shall expire unless exercised within ninety days after the date hereof.

The effective date of this order is the date hereof.

Dated at San Francisco, California, this 21st
day of JANUARY, 1975.



President

Commissioners