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Decision No. 85186

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; amended March 28, 1975)
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 837 (Filed January 14, 1975)
And Related Matters.	Case No. 5439, OSH 241 Case No. 5441, OSH 330 (Filed January 14, 1975)

(For appearances see Decision No. 84537.)

Additional Appearances

C. D. Gilbert and H. Hughes, for California Trucking Association, interested party.

FINAL OPINION

United Parcel Service, Inc. (UPS), a highway common carrier, seeks authority under Sections 454 and 491 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.

Interim Decision No. 84012 dated January 21, 1975 authorized UPS to increase its rates as follows:

(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 charge per package of 55 cents.

After hearing, Second Interim Decision No. 84537 dated June 10, 1975 authorized UPS to establish the following increased rates and charges in its Local Parcel Tariff Cal. P.U.C. No. 18:

(a) Amend Item No. 45-A by increasing the charge for correction of wrong addresses to 85 cents.

(b) Amend Item No. 80-B by increasing the charge for each C.O.D. received for collection to 85 cents.

(c) Amend Item 150-E by increasing the charge per package to 60 cents.

The amended application seeks additional relief not granted in Decisions Nos. 84012 and 84537 to raise the rate per pound by 1/2 cent for each territory or zone, except Zone 2.

Further hearing was held on June 30, 1975 for the purpose of receiving argument and ruling on the motion of the Commission staff that applicant be ordered to produce certain financial information and records. Applicant was directed to furnish specified financial information pursuant to the staff motion.

Further hearing was held on September 9 and 10, 1975 in San Francisco to receive the reports and recommendations of the Commission staff. The matters were submitted on the latter date.

UPS's Showing

UPS's showing, as presented at the hearings held in April 1975 and set forth in Decision No. 84537, is repeated in part herein for the purpose of comparison with staff data.

UPS operates in several states. In California, UPS conducts a specialized common carrier service for the transportation of small packages from other than retail stores (the service for which increased rates are sought). In addition, UPS conducts retail store delivery operations in the metropolitan areas of San Francisco and Los Angeles as a contract carrier, and pickup and delivery of interstate shipments transported by United Parcel Service Company, an airfreight forwarder. Both UPS and United Parcel Service Company are wholly owned subsidiaries of United Parcel Service of America, Inc.

Buildings and other plant facilities used by UPS in its operations are leased from subsidiaries of Service Plants Corporation which, in turn, is a subsidiary of United Parcel Service of America.

In arriving at the expenses for UPS's California intrastate common carrier operation, it is necessary to allocate joint operating expenses incurred in UPS's contract carrier operations and the pickup and delivery operations of its freight forwarder affiliate, as well as the expenses incurred by the common carrier service. The methods of allocating operating expenses were the same as those used by UPS in prior proceedings. Operating rents for facilities leased by UPS from its affiliate were eliminated and so-called landlord or ownership costs were substituted therefor, in order to eliminate any element of profit in transactions between affiliates.

Management fees covering expenses for legal, accounting, personnel, and other services incurred on behalf of all affiliates are charged to the affiliates. The charge on UPS's books for the management fee in the base year used in the exhibits developed for the amendment to the application (year ended June 30, 1974) was based on 4.5 percent of gross revenue. For ratemaking purposes, UPS substituted a value based on 2.2 percent of total operating expenses. That percentage is the ratio that the total operating expenses for UPS's intrastate common carrier services bear to total operating expenses of all subsidiaries of the parent corporation to which a charge is made for management services. In the base and test year operating results developed by UPS, depreciation expense for revenue equipment and plant equipment is adjusted on a remaining-life basis to reflect the service lives for such equipment found reasonable for ratemaking purposes in the last proceeding involving UPS rates (Decision No. 83217 dated July 30, 1974 in Application No. 54517).

UPS adjusted base year operating revenues to reflect the increases resulting from Decisions Nos. 83217 and 84012, and prior decisions on a full-year basis. Operating expenses were adjusted to show on a full-year basis the additional costs that would have been incurred for wage and fringe benefits which became effective in the test year and before. Related adjustments were made in management expense and regulatory fees.

The following is UPS's estimated operating results for a test year ending June 30, 1976. Column 1 represents historic data for the year ended June 30, 1974 adjusted for increased revenues resulting from higher rates authorized on an interim basis and adjusted expenses reflecting increased wages and related payroll expense. Column 2 adjusts the data in Column 1 to show the increased revenues from the greater package volume expected in the test year and to show the estimated increases in nonpayroll expenses (excepting business service expense).

TABLE 1

UNITED PARCEL SERVICE, INC.

CALIFORNIA INTRASTATE COMMON CARRIER OPERATION

Income Statement
Projected for 12 Months Comencing July 1, 1975
Adjusted to Show Results of Proposed Rate Increase
And the Effect of Assumed Increase in
Volume, and Increase in Nonpayroll Expense (Excluding
Business Service Fee)
(Exhibit 16)

	(1) Adjusted Base Year	(2) Projection (Note 1)
Packages	68,655,732	76,000,000
Operating Revenue	$89,270,175	$98,822,800
Operating Expenses		
Payroll and Fringe Benefits	$63,476,499	$70,269,600
Nonpayroll Expense	14,984,324	18,171,600
Depreciation Expense	893,280	988,760
Business Service Expense	1,745,790	1,967,459
Total Expense	$81,099,893	$91,397,419
Net Operating Revenues	$ 8,170,282	$ 7,425,381
Income Taxes		
State	$ 695,568	$ 627,255
Federal	2,944,616	2,613,071
Total Income Taxes	$ 3,640,184	$ 3,240,326
Net Income	$ 4,530,098	$ 4,185,055
Operating Ratio Before Income Taxes	90.85%	92.49%
Operating Ratio After Income Taxes	94.93%	95.77%

(Continued)

TABLE 1
(Continued)

Note 1:

Packages - Assumed intrastate volume for 12 months ending June 30, 1976.

Revenue - Assumed intrastate volume times Column 1 average revenue per package.

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

Nonpayroll Expense - Reflects result of increasing Column 1 expense per package by 9.54% based on average increase in intrastate nonpayroll expense per package over last 4-year period, and multiplying by 76 million packages.

Depreciation Expense - Assumed intrastate volume times Column 1 average depreciation expense per package.

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

UPS presented the following statement of operating properties as of December 31, 1975, representing the midpoint in the rate year, for the purpose of showing an average or midyear rate base:

TABLE 2

UNITED PARCEL SERVICE, INC.

CALIFORNIA INTRASTATE COMMON CARRIER OPERATION

List of Operating Properties
As of December 31, 1975 (See Note A)
(Exhibit 17)

	Cost	Depreciation	Book Value
Land and Structures	$16,041,062	$ 1,907,207	$14,133,855
Revenue Equipment	19,798,718	8,586,391	11,212,327
Plant Equipment	15,465,363	5,430,914	10,034,449
Improvements to Leasehold Property	4,425,904	476,068	3,949,836
Materials and Supplies	422,428	-	422,428
	$56,153,475	$16,400,580	$39,752,895

Note A: Facilities leased from related companies included on an "as-owned" basis. Depreciation computed on a remaining-life basis, using depreciation lives found reasonable in Decision No. 83217.

UPS also developed in Exhibit 19 a working cash analysis for its intrastate operation for the year ended June 30, 1974 using the methods described in the Standard Practice U-16-Determination of Working Cash Allowance, promulgated by the Commission's Utilities Division. Exhibit 18, summarized in Table 3 below, sets forth applicant's estimated rate of return in the test year under rates proposed in the amended application:

TABLE 3

UNITED PARCEL SERVICE, INC.

CALIFORNIA INTRASTATE COMMON CARRIER OPERATION

Summary of Earnings

For 12 Months Comencing July 1, 1975

Depreciated Value of Operating Properties (Table 2)	$39,752,895
Provision for Working Cash (Exhibit 19)	2,558,883
Rate Base	$42,311,778
Net Income per Column 2 of Table 1 (above)	$ 4,185,055
Rate of Return	9.9%

Finance and Accounts Division Evidence

The report of the Commission's Finance and Accounts Division (Exhibit 24) was presented by a public utility financial examiner.

The report states that the examination of the accounting records of UPS included a general review of the accounting methods and procedures of UPS and a utilization of auditing techniques and various tests of accounting records considered necessary by the staff. The examination was conducted at UPS offices in Los Angeles, Santa Ana, New York City, and Greenwich, Connecticut. In addition, several operating centers were visited.

A study was made of certain affiliated companies to determine the reasonableness of charges made to California common carrier operations. The report states that these are four affiliated entities, all of which have subsidiaries doing business with each other. Those entities either have common directors, common officers, or common ownership according to the witness.

Those entities are:

1. United Parcel Service of America.
2. Service Plants Corporation.
3. The U.P.S. Retirement Plan.
4. The U.P.S. Thrift Plan.

United Parcel Service of America (America) is the operating entity. Its largest subsidiary is UPS (United Parcel Service of Ohio) which has three operating districts in California and which operates in almost all of the states except those in the Northeast and New York State. In addition to the other subsidiaries, America owns 30 leasing subsidiaries which lease the land and building occupied by the various operating subsidiaries including those used in the California districts. United Parcel Service General Services Co. (General Services) is another subsidiary which, together with its parent, provides all management services to all other affiliates. The combined management service expense for 1974 as recorded on the books of General Services and America was $27,114,561.

Service Plants Corporation (Service Plants) owns 83 leasing subsidiaries of which 14 lease operating centers to the California districts. Neither Service Plants nor its subsidiaries have employees. All general and administrative services are performed by General Services. United Parcel Service Retirement Plan Corporation (Retirement Plan Corporation) is a subsidiary of Retirement Trust which leases equipment and facilities in seven operating centers in the California districts. General Services performs all required general and administrative services for Retirement Trust and all its subsidiaries. United Parcel Service Thrift Plan Corporation (Thrift Plan Corporation) is a subsidiary of Thrift Plan Trust. Thrift Plan Corporation leases 12 operation centers to the California districts. All required general and administrative functions are performed by General Services.

Based on the financial staff's study and analysis, the staff witness recommended that:

1. Operating rents be adjusted for facilities leased from Thrift Plan/Retirement Plan.
2. Management fees be determined on a method different than that used by UPS, and
3. That service lives of revenue and plant equipment be extended.

Operating Rents

The Commission has consistently eliminated operating rents paid to affiliates and reflected such properties and expenses on an "as owned" basis. The staff concluded that in addition to the adjustment made to properties leased from the affiliate Service Plants Corporation an adjustment should also be made to properties leased from Retirement Plan and Thrift Plan Corporations. This adjustment was made by the staff witness for ratemaking purposes for the calendar year 1974.

The following tabulation summarizes the amounts of property, plant, and equipment per books, staff adjustments to the books, and the staff adjusted total property, plant, and equipment at December 31, 1974:

TABLE 4
UNITED PARCEL SERVICE, INC.
Property, Plant, and Equipment
California Districts
At December 31, 1974
(Exhibit 24)

Items	Gross Assets	Reserve: Before Trans.	Reserve: Accum.	Net Assets
Fixed Assets Per Books	$50,213,077	$ -	$22,904,465	$27,308,612
Adjustments for Affiliated Props.:				
Service Plant	21,870,489	-	2,835,508	19,034,981
Retirement Corp.	1,470,454	23,870	198,741	1,247,843
Thrift Corp.	1,379,618	42,781	212,566	1,124,271
Staff Adjusted	$74,933,638	$66,651	$26,151,280	$48,715,707

Management Fees

The report of the staff financial examiner states the Commission has adjusted management fees for services rendered by the parent to reflect assignment for costs based on underlying expenses of the parent. The witness recommended that the 2.2 percent of district expenses proposed by UPS and accepted for ratemaking in the interim phase be modified, based on the staff's examination of the procedures and supporting data found in the general offices of the parent. The report shows that operating subsidiaries of America are charged 4.5 percent of revenues as general office business expense. This amount assertedly represents, in the view of the parent company, the reasonable charges for the benefits accorded to each subsidiary by the services performed by the parent. The report further states that past decisions of this Commission have substituted for ratemaking purposes a lesser amount for such function based on the relationship of total management expenses to the total expenses of the operating subsidiaries. Based on 1974 operating results, the UPS method developed a management expense of 2.2 percent of total expenses for UPS's California intrastate common carrier operations.

The staff developed a three-factor method of allocating management expenses. The factors are similar to those set forth in the California franchise tax laws for the purpose of allocating expenses of multistate corporations that are subject to the California corporate income tax. The franchise tax factors are: tangible property, wage and payroll expenses, and gross revenues from sales. The staff witness substituted for the last named factor the gross revenue from all operations of the parent company and its subsidiaries, including intercompany transactions, such as rent paid affiliates and employer contributions to retirement and thrift plans. A portion of the total management expense was allocated by the staff witness to the Retirement Plan Corporation and the Thrift Plan Corporation for the reason that management functions are performed for such entities, but no management expense is charged to such companies.

Exhibit 27 developed that by using the allocation methods advocated by the staff the estimated management expense chargeable to UPS's California intrastate common carrier operations for the year ended December 31, 1974 is $1,374,709. The corresponding amount for that period based upon 2.2 percent of operating expenses (as used in UPS's Exhibit 16) and the staff adjusted expenses (less management fees) set forth in revised Table 6 of Exhibit 24 would be $1,701,436.

Adjusted Lives of Property

The staff financial examiner recommended that the study presented by the staff engineer and adopted for ratemaking purposes in Decision No. 83217 in Application No. 54517 (Exhibit 20) be reevaluated to extend the average age for automotive equipment, and that service lives of other operating property also be extended. Adjustment to actual operating expenses and rate base for the year 1974 to accomplish this was set forth in Exhibit 24. Such recommendation was not adopted by the staff engineer in his projection of test year operating results set forth in Table 5 (infra).

The service lives recommended by the financial examiner for use in computing depreciation expense for ratemaking purposes as set forth in Exhibit 24 are as follows:

Revenue Equipment:

Service Cars - 20 years, 10% salvage
Tractors and Trailers - 20 years, 10% salvage

Plant Equipment - 18 years, 10% salvage

Leasehold Improvements - Amortized over 40 years

Thrift Plan Trust and Retirement Plan Trust Properties

Cross-examination of the staff financial witness by UPS developed that Thrift Plan Trust/Thrift Plan Corporation and Retirement Plan Trust/Retirement Plan Corporation are separate entities from UPS, formed to invest the retirement funds and the savings of UPS's employees. The boards of directors of the trusts are officers or directors of UPS or its parent. Earnings from the rentals of properties owned by the Thrift Plan Corporation and Retirement Plan

Corporation do not redound to UPS, although such earnings increase the value of employees' interest in retirement funds and provide a return on savings held by the Thrift Plan Trust.

Exhibit 33 contains a statement of the funds allocated by General Services to Thrift Plan Trust/Thrift Plan Corporation and Retirement Plan Trust/Retirement Plan Corporation for the year ended December 31, 1974 for the activities performed by General Services for those companies. It is UPS's view that the funds allocated to Thrift Plan/Retirement Plan activities should be deducted from the total expenditures of General Services and the balance allocated as a management fee in the same manner as accomplished in UPS's Exhibit 16 (Table 1).

It is also UPS's contention that the staff's three-factor method is incorrect, in that the factors should be identical to those used for franchise tax purposes. UPS asserts that the staff's results are distorted by using intercompany rents and other intercompany charges in aggregating the revenue factor, rather than using gross revenues from its carrier activities (gross revenue from sales).

UPS also objects to placing the California operating properties leased from Thrift Plan/Retirement Plan on an "as-owned" basis for determining operating expenses and rate base because UPS believes that Thrift Plan/Retirement Plan are not affiliates nor alter egos of UPS or its parent.

Transportation Division Evidence

An associate transportation engineer presented Exhibit 25 which contains a lead/lag study to develop the amount of working cash allowance which should be included in rate base; development of working cash allowance for UPS's California intrastate common carrier operations; and development of operating revenues and expenses, income taxes, and net income for a test year ending July 1, 1976.

Working Cash Study

The working cash study undertaken by the staff engineer is the first made by the staff since that presented in Application No. 50030 in May 1968. The lead/lag study was based on analysis of approximately 5,000 invoices involving transactions by UPS during the months of March and October 1974. A record was made of the date that each invoice was received and the date that such invoice was paid by UPS. From such record the days of lead or lag were determined. A review of UPS's billing was also made to determine the lag days from the date service was performed to the collection due date.

The staff engineer made a study of the minimum bank balances required to offset bank charges. That study showed that all monies collected flow through one bank account. The monthly statements for that account were analyzed for a 42-month period between July 1971 and December 1974 and a monthly average service charge was developed. The witness testified that the account service charge was based on a money factor related to the interest rate for 90-day Treasury Bills, and that the money charge changed during the 42-month period analyzed by him.

UPS, through cross-examination, developed that the money charge used by the staff witness in determining the minimum bank balances component of his working cash allowance did not reflect the most recent data available, and if the most recent data were used, an average monthly bank charge would have been greater as shown in Exhibit 29. UPS also developed that the lag time for collection of freight bills was understated, which would also increase the amount of the working cash allotment.

Results of Operations Study

The staff engineer developed estimated test-year operating results by revising the data presented by UPS in Table 1 to reflect the following adjustments:

1. The operating properties owned by Thrift Plan Corporation and Retirement Plan Corporation are treated as if owned for ratemaking purposes, in a manner similar to the treatment of operating properties of Service Plan Corporation. Using such method, recorded operating rents for Thrift Plan/ Retirement Plan properties are disallowed, and ownership expenses such as real estate taxes, depreciation, insurance, and repairs are substituted therefor.
2. Business service expense calculated by the staff financial witness was substituted for the business service expense allocation in UPS exhibits.
3. Rate base is revised to reflect the working cash allowance developed from the study made by the staff engineer.

The recommendations of the staff financial witness that service lives of operating properties be adjusted was not adopted by the staff engineer.

The staff engineer accepted certain changes in his lead/lag study as set forth in Exhibits 29 and 30. Based on such revision the staff witness concurred in the adjustments to his working cash allowance as set forth in Exhibit 31. That exhibit develops a working cash allowance of $2,051,039 for UPS's California intrastate common carrier operations. The total rate base set forth in Exhibit 31 for the test year ending June 30, 1976, including the revised computation of working cash allowance, is $41,640,903.

The following table sets forth the staff engineer's estimated results of operations under the increased rates proposed by UPS for a test year ending June 30, 1976, developed as indicated above.

TABLE 5

UNITED PARCEL SERVICE, INC.

CALIFORNIA INTRASTATE COMMON CARRIER OPERATIONS

Commission Staff

Estimated Revenues, Expenses, and Rate of Return for a Test Year Ending June 30, 1976 At Rates Sought in Amended Application (Exhibits 24, 28, and 32)

	Traffic Volume Estimated for Test Year
Packages	76,000,000
Operating Revenue	$98,822,800
Operating Expenses	
Payroll and Fringe Benefits	$70,565,461
Nonpayroll Expense	17,890,400
Depreciation Expense	1,775,831
Business Service Expense	1,960,957
Total Expense	$92,192,649
Net Operating Revenues	$ 6,630,151
Income Taxes	
State	$ 535,602
Federal	1,616,363
Total Income Taxes	$ 2,151,965
Net Income	$ 4,478,180
Operating Ratio (After Taxes)	95.5%
Rate Base	$41,640,905
Rate of Return	10.8%

Rate of Return

The staff engineer testified that the operating ratio and rate of return set forth in the above table are not more favorable than that authorized to UPS in past decisions of this Commission.[1/] Therefore, it was his conclusion that the balance of the rate increase sought herein should be granted. On the other hand, the staff financial witness stated that UPS's Exhibit 23 shows that it seeks a rate of return of 10.6 percent at proposed rates for a test year ending June 30, 1976. Therefore, the financial examiner recommended that a rate of return not to exceed 10.6 percent be authorized herein. No rate of return study was presented by the financial examiner to support his recommendation.

UPS stated, in reply, that it does not seek a specific rate of return in this proceeding; rather, it seeks a level of rates which it believes is reasonable for its operations within California, in consideration of its revenue needs and the rates of United States Parcel Post and of competing carriers in the package delivery field, such as Greyhound Lines, Inc.

Discussion

UPS disputes the manner in which the staff treats the operating properties owned by Retirement Plan/Thrift Plan Corporations and leased to applicant and the manner in which the staff allocated business service expense to UPS's California intrastate operations. UPS points out that even with such adjustments the staff's test year operating results under the full amount of increase sought herein produce an operating ratio (after taxes) of 95.5 percent and a rate of return of 10.8 percent, which is less favorable than that previously authorized to it; therefore, it urges that the application, as amended, be granted.

1/ Permanent increases in rates were granted to UPS in the following proceedings. Both rate of return and operating ratio (after taxes) were considered in determining the reasonableness of the increases authorized.

Decision No.	Application No.	Test Year Ended	Rate of Return	Operating Ratio (After Taxes)
75692	50760	2/28/70	12.00%	95.67%
78711	52362	2/28/72	9.05	97.17
82582	53615	12/31/73	9.85	96.91
83217	54517	12/31/74	8.92	96.71

We view the ownership of property by the Retirement Plan Corporation and Thrift Plan Corporation to be sufficiently distinct from that of UPS, such that operating rents may be properly used in computing results of operations, rather than converting to property expenses on an "as owned" basis. The three-factor method of allocating management expenses analogized from state franchise tax law treatment is not convincing. The method of allocating business service expenses, previously found reasonable by this Commission, will be utilized. The transportation staff's Adjusted Lives of Property and lead/lag study and methods for the development of working cash allowance as modified at the hearing are reasonable for the purposes of this proceeding and as a basis for developing the working cash component of rate base in a future proceeding.

The following table sets forth the adopted adjustments and a revised result of operation, based on Table 5. Granting the remaining relief requested in the application will produce an operating ratio of 95.58 percent and a rate of return of 10.86 percent. We believe the showings by UPS and the staff engineer indicate that the full amount of the relief sought should be granted. The operating ratio and the rate of return are closely within the range authorized over the last six years and are reasonable.

TABLE 6

UNITED PARCEL SERVICE, INC.
CALIFORNIA INTRASTATE COMMON CARRIER OPERATIONS

Adopted Results of Operations
For Test Year Ending June 30, 1976
At Rates Sought in Amended Application

	Traffic Volume Estimated for Test Year
Packages	76,000,000
Operating Revenue	$98,822,800
Operating Expenses	
Payroll and Fringe Benefits	$70,565,461
Nonpayroll Expense	18,128,307
Depreciation Expense	1,739,772
Business Service Expense	1,989,540
Total Expense	$92,423,080
Net Operating Revenues	$ 6,399,720
Income Taxes	
State	$ 514,863
Federal	1,518,961
Total Income Taxes	$ 2,033,824
Net Income	$ 4,365,896
Operating Ratio (After Taxes)	95.58%
Rate Base	$40,208,052
Rate of Return	10.86%

Findings

1. Interim Decisions Nos. 84012 and 84537 in this proceeding authorized UPS to increase its rates, pending completion of Commission staff studies and their receipt in evidence.

2. Relief not heretofore accorded to UPS in the interim orders referred to above would permit it to further increase its rate per pound by 1/2 cent. The estimated annual revenue increase from such proposal is $2,530,000.

3. The studies undertaken by the Commission staff have been completed and were received in evidence at the hearings held on September 10 and 11, 1975.

4. As set forth in Tables 1 and 3 above, UPS's test estimates indicate that its intrastate common carrier operations would result in net operating revenues (after taxes) of $4,185,055, an operating ratio (after taxes) of 95.77 percent, and a rate of return of 9.9 percent.

5. As set forth in Table 5 above, staff's test year estimates indicate that under the full amount of rate increase sought herein, UPS's California intrastate common carrier operations would result in net operating revenues (after taxes) of $4,478,180, an operating ratio (after taxes) of 95.5 percent, and a rate of return on rate base of 10.8 percent.

6. Over the last six years, we have authorized UPS to increase its rates based on adopted results of operations which produce operating ratios (after taxes) ranging between 95.67 percent to 97.17 percent, and rates of return ranging from 8.92 percent to 12.0 percent.

7. We authorize as reasonable the operating ratio of 95.58 percent and the rate of return of 10.87 percent set forth in Adopted Results of Operations Table 6. Such an allowance is reasonably within the range previously granted to UPS and will not produce excessive earnings for UPS's intrastate common carrier operation.

8. The balance of the rate increase sought in the application, as amended, and not heretofore granted in interim orders will be reasonable and is justified.

Conclusions

1. The balance of the rate increase sought herein should be granted, as provided in the order which follows.

2. Minimum Rate Tariffs 1-B, 2, 9-B, and 19 should be amended by separate order to reflect the increased wholesale parcel delivery rates authorized herein, and common carriers now maintaining parcel delivery rates comparable to the rates of UPS but otherwise lower than the established minimum rates should be authorized and directed to increase such rates to the level of the rates authorized to UPS herein in order to maintain competitive relationships.

FINAL ORDER

IT IS ORDERED that:

1. United Parcel Service, Inc. is authorized to establish the increased rates and charges as proposed in Application No. 55317, as amended.

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

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

Dated at San Francisco, California, this 2nd day of DECEMBER, 1975.

President

Commissioners