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ORIGINAL

Decision No. 87283

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. 56871
(Filed November 12, 1976)

In the Matter of the Investigation for the purpose of considering and determining minimum rates for transportation of any and all commodities statewide, including, but not limited to, those rates which are provided in Minimum Rate Tariff 2 and the revisions or reissues thereof.

Case No. 5432, OSH 946
(Filed February 1, 1977)

And Related Matters.

Case No. 5439, OSH 302
Case No. 5441, OSH 384
(Filed February 1, 1977)

Irving R. Segal and Roger L. Ramsey,
Attorneys at Law, for United Parcel
Service, Inc., applicant.
Jerry L. Blakeslee, for West-Pak, Inc.;
and Edward J. Marnell, for Adams
Delivery Service; respondents in Cases
Nos. 5432, 5439, and 5441 and interested
parties in Application No. 56871.
Robert F. Schafer, for Duracell Products
Company; and Arthur D. Maruna and
H. Hughes, for California Trucking
Association; interested parties.
Maxine Dremann, Attorney at Law, Milton
J. DeBarr, and Robert E. Bouchet, for
the Commission staff.

INTERIM OPINION

By Application No. 56871 filed November 12, 1976, United Parcel Service, Inc. (UPS) seeks authority to increase certain of its rates for common carrier parcel delivery service between points in California as follows:

<u>Movements Wholly Within Local Drayage Area A, B, or C</u>	<u>Present Rates</u>	<u>Proposed Rates</u>
Per Package	60¢	70¢
Per Pound	5	5.9
<u>All Other Movements Throughout California</u>		
Per Package	66¢	70¢
Per Pound:		
Zone 2	6.0	6.4
Zone 3	7.7	8.2
Zone 4	9.9	10.6
Zone 5	12.1	12.9
Overall California Intrastate Revenue per Package	141.0¢	154.3¢
Percent Increase Sought		9.4%

The proposed rates are designed to produce additional annual revenues of \$12,631,533.

Orders Setting Hearing in Cases Nos. 5432, 5439, and 5441 state as follows:

"Various minimum rate tariffs published by the Commission contain provisions for the alternative application of common carrier rates which may be applied in lieu of the minimum rates when such common carrier rates produce a lower aggregate charge for the same transportation than results from the application of the minimum rates. Accordingly, hearings in the several minimum rate investigation cases should be held with the hearings in Application 56871 for the purpose of determining whether common carriers maintaining, under outstanding authorizations permitting the alternative use of common carrier rates, rates below the specific minimum rate levels

otherwise applicable, should be authorized and directed to increase such rates to the level of the rates established by United Parcel Service, Inc. pursuant to decision in said Application 56871, or to the level of the specific minimum rates, whichever is lower."

The Orders Setting Hearing were consolidated for hearing with Application No. 56871. Public hearing in the consolidated proceeding was held before Examiner Mallory in San Francisco on February 24, 1977.

Evidence in support of the relief sought was presented by UPS. The Commission staff, not having completed its investigation, was not prepared to present its evidence. The matters were adjourned to May 17, 1977 for receipt of the staff evidence.

Because of the time lag between the filing of the application and date of the adjourned hearing, UPS requested that interim relief be granted in the amount of the requested increase less two cents per package. Based on an estimated volume of 80,000,000 packages in the 1977 test year used by UPS, the increased annual revenue under the interim rates would be \$7,984,000. The Commission staff concurred in the request for an interim adjustment. A representative of Duracell Products Company also supported the granting of prompt relief to UPS.

Inasmuch as there was no opposition to the granting of the interim relief requested by UPS, a detailed discussion is not necessary of the allocation methods and other procedures found reasonable in prior proceedings and used by UPS to develop its test year estimates of its operating results under present and proposed rates.

The record shows that UPS has experienced increases in contractual wage and fringe benefits and in other operating costs since the last proceeding in which the package rates in issue were increased, and that in the 1977 test year used by UPS its California

intrastate highway common carrier operations will be operated at a loss of \$2,238,600 or at an operating ratio of 102.2 percent, unless its rates are adjusted.

The following table sets forth UPS estimates of its operating results for 1977 test year as set forth in its Exhibit 14, adjusted to give effect to the sought interim rate increase:

TABLE 1

UNITED PARCEL SERVICE, INC.

California Intrastate Common Carrier Operation
 Income Statement
 Projected for Twelve Months Commencing January 1, 1977
 Showing Results of Proposed Rate Increase (Column 1)
And the Effect of Estimated Increase in Volume (Column 2)

<u>Item</u>	(1) Projected Year Results On Base Year Volume Level (Note 1)	(2) Projected Year Results With Estimated Increase In Volume (Note 2)
Packages	72,203,495	80,000,000
Operating Revenue	\$109,973,912	\$121,848,000
<u>Operating Expenses</u>		
Payroll and Fringe Benefits	\$ 77,409,738	\$ 85,768,000
Non-Payroll	21,668,950	24,008,000
Depreciation Expense	2,445,450	2,445,450
Business Service Expense	<u>2,548,256</u>	<u>2,816,758</u>
Total Expense	\$104,072,394	\$115,038,208
Net Operating Revenues	\$ 5,901,518	\$ 6,809,792
<u>Income Taxes</u>		
State	\$ 438,177	\$ 519,922
Federal	1,412,888	1,809,622
Total Income Taxes	1,851,065	2,329,544
Net Income	\$ 4,050,453	\$ 4,480,248
Operating Ratio Before Income Taxes	94.63	94.41
Operating Ratio After Income Taxes	96.32	96.32

Note 1: Base year is the year ended June 30, 1976.

Note 2: Estimated intrastate volume for 12 months ending December 31, 1977.

The following table depicts the estimated rate of return under proposed interim rates:

TABLE 2

UNITED PARCEL SERVICE, INC.

California Intrastate Common Carrier Operation
Summary Of Earnings
For Twelve Months Commencing January 1, 1977

Depreciated Value of Operating Properties (Exhibit 12)	\$44,378,440
Provision for Working Cash	<u>3,633,735</u>
Rate Base	\$48,012,175
Net Income per Table 1 - Column 2	\$ 4,480,248
Rate of Return	10.1%

The last rate increase authorized to UPS was pursuant to Decision No. 85186 dated December 2, 1975 in Application No. 55317. That decision found as follows:

- "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 allowance is reasonably within the range previously granted to UPS and will not produce excessive earnings for UPS's intrastate common carrier operation."

Discussion

Applicant has presented its case in chief and cross-examination has been conducted. At this time we do not know whether the staff studies, when completed, will produce results which are materially different from applicant's estimates. Applicant has used

all ratemaking adjustments and allocations found reasonable in prior Commission orders. The Commission recognizes that applicant's operations are labor intensive (rather than capital intensive) inasmuch as wages, fringe benefits, and payroll taxes comprise about 75 percent of total operating expenses. Under union contracts with its employees, applicant has experienced increases in wages and fringe benefits. The wage contracts provide for yearly increases in wage rates in stated amounts plus cost of living increases which are scaled to the Cost of Living Index prepared by the United States Department of Labor. The wage increases now in effect and which will become effective in the test year are substantial and unless rate relief is promptly accorded, UPS's operations will be conducted at a loss in the test year. Immediate interim relief requested by UPS is not opposed, and such relief is recommended by Duracell Products Company and by the staff.

Interim rate relief has specific significance to the Commission and to the California Supreme Court. It should only be authorized in those instances wherein an applicant has established to the Commission's satisfaction that an emergency financial situation exists which requires granting rate relief pending any further showing. Here, such an emergency has not been established. However, applicant has made its initial case and that case has been tested by cross-examination. In the absence of persuasive objection, there is no reason why partial relief may not now be granted to applicant. Such partial general rate relief should be granted.

Findings

1. Applicant was last authorized on a permanent basis to increase its rates and charges for its California intrastate common carrier package service pursuant to Decision No. 85186 dated December 2, 1975 in Application No. 55317. 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 June 30, 1976.

2. Application No. 56871 was filed by UPS on November 12, 1976.

3. Public hearing was held on February 24, 1977 at which evidence in support of the application was presented by UPS.

4. At the hearing the Commission staff indicated that it planned to make detailed studies of applicant's books and records, and of its operating practices. The proceeding was adjourned to May 17, 1977 for receipt of staff evidence.

5. Evidence introduced by UPS showed that its California intrastate common carrier operations will be conducted at a loss in the 1977 test year used by UPS, unless rate relief is granted.

6. UPS requested that immediate rate relief be granted in the amount requested in Application No. 56871, less two cents per package.

7. Table 1 indicates (in Column 2) that the interim rates requested by UPS will result in annual increases in revenue of \$7,984,000, net income for its California intrastate operations of \$4,480,248 (after provision for income taxes), and an operating ratio of 96.32 percent. Table 2 shows that such level of earnings will produce a rate of return of 10.1 percent.

8. The last permanent increase in rates was authorized to UPS in Decision No. 85186. That decision found that an operating ratio of 95.58 percent (after taxes) and a rate of return of 10.87 percent was reasonable for a test year ended June 30, 1976, and that such allowance would not produce excessive earnings.

9. The rate of return and operating ratio set forth in Finding 7 are not more favorable than that found reasonable for UPS in its last general rate increase proceeding.

10. Partial general rate relief as authorized herein is justified pending final decision.

Conclusions

1. A partial general increase in rates should be granted as found reasonable above. The effective date of this order should be the date on which it is signed because there is an immediate need for rate relief and there is no opposition to the interim relief requested.

2. The application should be scheduled for further hearing.

3. 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 to the level of the rates authorized to UPS herein in order to maintain competitive relationships.

INTERIM ORDER

IT IS ORDERED that:

1. United Parcel Service, Inc. is authorized to establish the following increased rates and charges in Item 150 series of its Local Parcel Tariff Cal. P.U.C. No. 20 as follows:

Rates for Deliveries of Packages
Between Points in California

- (a) The rate for delivery of packages moving wholly within Territory A, wholly within Territory B, or wholly within Territory C, as described in Item 25, shall be 68 cents per package plus 5.9 cents for each pound or fraction thereof of its weight.
- (b) The rate for delivery of packages, except packages moving wholly within Territory A, wholly within Territory B, or wholly within Territory C, as described in Item 25, shall be 68 cents per package plus the following rates for each pound or fraction thereof of its weight:

<u>Zone</u>	<u>Rate for Each Pound Or Fraction Thereof</u>
2	6.4¢
3	8.2
4	10.6
5	12.9

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.

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

4. The rates established by United Parcel Service, Inc., pursuant to Ordering Paragraph 1 hereof, shall not be further increased by the amounts authorized to common carriers by Decision No. 87048 in Case No. 5432, Petition No. 945, or supplemental decision(s) issued concurrently therewith.

5. While the drayage area rates in the Commission's minimum rate tariffs are not being increased by this order, common carriers are authorized to increase their rates to the level authorized applicant in Ordering Paragraph 1 hereof. 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 directed to increase such rates to the level of the rates authorized in Ordering Paragraph 1 hereof. Tariff publications authorized and required to be made by common carriers as a result of this ordering paragraph 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.

6. Common carriers, in establishing and maintaining the rates authorized thereinabove, are hereby authorized to depart from the provisions of Section 461.5 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 the long- and short-haul departures and to this order.

The effective date of this order is the date hereof.

Dated at San Francisco, California, this 3rd
day of MAY 4, 1977.

Rolot Bakunov

President

William J. Sproull

James D. Spurgeon

Richard P. Howell

Commissioners