STATE OF CALIFORNIA GEORGE DEUKMEJIAN, Governor

PUBLIC UTILITIES COMMISSION
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

RU - TS - 683

August 10, 1988

TO ALL HIGHWAY COMMON AND CONTRACT CARRIERS:

SUBJECT: Commission ordered changes in motor carriers rates subject to General Order (GO) 147-A and establishment of the current labor ratio for dedicated contracts.

(THE ATTACHED RESOLUTION REQUIRES HIGHWAY COMMON AND CONTRACT CARRIERS SUBJECT TO GO 147-A TO INCREASE CERTAIN RATES NO LATER THAN OCTOBER 11, 1988 OR MAKE THE NECESSARY FILING TO AVOID THESE INCREASES BY SEPTEMBER 9, 1988. HIGHWAY COMMON CARRIERS WHO FAIL TO COMPLY WITH THIS ORDER BY SEPTEMBER 20, 1988 SHALL BE FINED $750 AND IN THE EVENT OF FURTHER NON-COMPLIANCE, SHALL HAVE THEIR COMMON CARRIER AUTHORITY SUSPENDED. HIGHWAY CONTRACT CARRIERS WHO FAIL TO COMPLY WITH THIS ORDER BY SEPTEMBER 1, 1988 SHALL BE FINED $750, AND IN THE EVENT OF FURTHER NON-COMPLIANCE, SHALL HAVE ALL AFFECTED CONTRACTS CANCELLED. A NEW LABOR RATIO FOR DEDICATED CONTRACTS IS ESTABLISHED BY THIS RESOLUTION. PLEASE READ THIS INFORMATION CAREFULLY.)

Effective August 10, 1988, the Commission adopted Resolution TS 683, which requires the following:

1. Common and contract carriers are ordered to increase by 2.4% those base and provisionally grandfathered rates for transportation which is not subject to minimum weight of 10,000 pounds or more or which is not subject to a minimum volume of 1,440 cubic feet or more.

2. Common and contract carriers are ordered to increase by 1.8% those base and provisionally grandfathered rates for transportation which is subject to a minimum weight of 10,000 pounds or more or to a minimum volume of 1,440 cubic feet or more. Carriers that did not take all or part of last year's permissive increase of .7%, authorized by Resolution TS-679, may increase these rates by an amount which, together with the increase already taken, will result in a combined increase of 2.5%.

3. Contract carriers filing dedicated contracts pursuant to Rule 7.2 of GO 147-A on or after August 10, 1988 must demonstrate that their ratio of the sum of profit and labor to their total operating expense is not less than 47.82%.

A copy of Resolution TS 683 is attached, as well as tariff and contract filing instructions.

Very truly yours,

KENNETH K HENDERSON, Director
Transportation Division

Attachments

Attachment A

INSTRUCTIONS FOR HIGHWAY
COMMON CARRIERS TRUCK
FREIGHT COST INDEX
TARIFF FILINGS

1. You may file rates subject to this order on one days' notice, with an effective date no later than October 11, 1988.

2. You may apply the TFCI increases to your rates and charges either by surcharge supplement or by increasing the individual rates and charges by the exact amounts specified in the indexes.

   A. If you filed the TFCI increase(s) by supplement in 1987, you may combine the amounts in the 1988 supplement, and cancel the previous supplement. Appendices A and B, attached, are sample supplements for carriers that wish to incorporate the 1987 and 1988 increases.

      (1) Appendix A is a sample supplement for carriers that did not take the .7% TL permissive increase in 1987, and that do not wish to take it this year.

      (2) Appendix A is also a sample supplement for carriers that already took the .7% TL increase in 1987.

      (3) Appendix B is a sample supplement for carriers that did not take the .7% TL increase in 1987, but that do want to take it now.

   B. If you rolled the 1987 TFCI increases into the individual rates and wish to do the same this year:

      (1) Increase the LTL rates by 2.4%

      (2) Increase the TL rates by:

         (a) 1.8% if you did not take the .7% permissive increase in 1987, and do not want to take it this year.

         (b) 1.8% if you already took the .7% permissive increase in 1987.

         (c) 2.5% if you did not take the .7% permissive increase in 1987, but do want to take it this year.

C. All accessorial and other charges take the LTL TFCI percentage unless the charges have specified minimum weights of 10,000 pounds or more (or minimum volumes of 1,440 cu. ft. or more). Vehicle unit rates and truckload rates which do not have specified minimum weights of 10,000 pounds or more (nor minimum volumes of 1,440 cu. ft. or more) also take the LTL TFCI percentage increase (rather than the TL percentage increase).

3. If you opt for using the rate window to offset the TFCI increase, be aware that the increase must still be filed to establish the new base rate and then a window rate can be made effective on the same date. Also be aware that any "provisionally grandfathered" rates must take a TFCI increase, but may not take a "window rate".

4. If you have any questions on TFCI tariff filing, please call one of the following numbers:

(415) 557-3347	557-3593
557-3924	557-3621
557-0148	557-3639

INSTRUCTIONS FOR CONTRACT CARRIERS
TRUCK FREIGHT COST INDEX TARIFF FILINGS

Who Files?

All contracts and/or contract rate schedules, except Dedicated Contracts, must be increased.

TFCI Increases Do Not Apply to Dedicated Contracts

Rates in Dedicated Contracts (refer to Rule 7.2 of GO 147-A) are not subject to the TL and LTL index increases. However, dedicated contracts filed after August 10, 1988, must demonstrate profitability using the adopted labor ratio of 47.82%.

When to File?

You must increase all of your base and provisionally grandfathered rates not later than October 11, 1988.

You may file rates subject to this order on one day's notice.

How to Offset or Decline Rate Increases?

You may file a window rate along with the increased base rate filing (refer to Rule 7.3 of GO 147-A), or you may cost justify the rates which you wish to maintain at the level in effect before August 10, 1988.

(Provisionally grandfathered rates are not subject to the rate window.)

How to File the TFCI Increase?

You may apply the TFCI increases to your contract rates and charges either by surcharge or by increasing the individual rates and charges by the exact amounts specified in the indexes.

You may file the increases as an amendment to your contract. Remember, both carrier and shipper are required to sign all contract amendments.

All filings must be made in duplicate.

How to Apply Either the TL or LTL Index?

All of your rates and charges subject to GO 147-A which are in your contract and/or contract rate schedule and are subject to a minimum weight of 10,000 pounds or more or a minimum volume of 1,440 cubic feet or more must be increased by 1.8%.

Instructions for Contract Carriers
TFCI Tariff Filings

How to Apply Either the TL or LTL Index? (cont'd.)

All other contract and/or contract rate schedule rates and charges must be increased by 2.4%.

Increase all accessorial and other charges by the LTL TFCI increase (2.4%) unless the charges have specified minimum weights of 10,000 pounds or more (or minimum volumes of 1,440 cubic feet or more). Vehicle unit rates and truckload rates which do not have a specified minimum weight of 10,000 pounds or more or a specified minimum volume of 1,440 cubic feet or more also must be increased according to the LTL index (2.4%).

(Refer to Rule 7.4(b) of GO 147-A for application of the TL and LTL indexes.)

If You Have Further Questions

If your questions are not answered by GO 147-A or these filing instructions, you may call one of the following numbers for additional information on contract and contract rate schedule filing:

(415) 557-1868 (415) 557-3123 (415) 557-2699

You may call one of the following numbers for information on cost justification:

(415) 557-2697 (415) 557-1326 (415) 557-0217
557-3816 557-3275

APPENDIX A

CAL PUC No. ___

INCREASE SUPPLEMENT

Supplement No. ___
Cancels
Supplement No. ___

Sample Supplement Incorporating 1987/1988 Increases Where .7% Was Not Previously Taken, And the Carrier Does Not Wish to Take the .7% Increase At This Time.

(CARRIER NAME)

T - ________

SUPPLEMENT No. ___

TO

TARIFF No. ________

(TARIFF TYPE)

APPLYING ON
TRANSPORTATION OF
PROPERTY
BETWEEN
POINTS IN CALIFORNIA

APPLICATION OF INCREASE
(See Note 1)

Except as otherwise provided, all rates and charges on original or revised pages issued prior to the effective date of this Supplement are hereby increased as follows:

(1) All rates and charges for transportation which is not subject to a minimum weight of 10,000 pounds or more, or to a minimum volume of 1,440 cubic feet or more, are hereby increased by 3.6 percent.

(2) All rates and charges for transportation which is subject to a minimum weight of 10,000 pounds or more, or to a minimum volume of 1,440 cubic feet or more, are hereby increased by 1.8 percent.

NOTE 1: For the purpose of disposing of fractions under provisions hereof, fractions of less than one-half (1/2) cent shall be dropped, and fractions of one-half (1/2) cent of greater shall be increased to the next whole cent

Issued on one (1) day's notice under authority of CAL PUC Resolution TS-683.

ISSUED: EFFECTIVE:

ISSUED BY: (Issuing Officer)
(Address)

APPENDIX B

CAL PUC No. ___

INCREASE SUPPLEMENT

Supplement No. ___
Cancels
Supplement No. ___

(CARRIER NAME)

T - ________

SUPPLEMENT No. ___

TO

TARIFF No. ______

(TARIFF TYPE)

APPLYING ON
TRANSPORTATION OF
PROPERTY
BETWEEN
POINTS IN CALIFORNIA

Sample Supplement Incorporating 1987 & 1988 Increases Where the Carrier Has Previously Taken the .7% Increase.
- or -
the Carrier Has Not Previously Taken the .7% Increase But Wishes to Take It Now.

APPLICATION OF INCREASE
(See Note 1)

Except as otherwise provided, all rates and charges on original or revised pages issued prior to the effective date of this Supplement are hereby increased as follows:

(1) All rates and charges for transportation which is not subject to a minimum weight of 10,000 pounds or more, or to a minimum volume of 1,440 cubic feet or more, are hereby increased by 3.6 percent.

(2) All rates and charges for transportation which is subject to a minimum weight of 10,000 pounds or more, or to a minimum volume of 1,440 cubic feet or more, are hereby increased by 2.5 percent.

NOTE 1: For the purpose of disposing of fractions under provisions hereof, fractions of less than one-half (1/2) cent shall be dropped, and fractions of one-half (1/2) cent of greater shall be increased to the next whole cent

Issued on one (1) day's notice under authority of CAL PUC Resolution TS-683.

ISSUED:

EFFECTIVE:

ISSUED BY: (Issuing Officer)
(Address)

FUNCTIONAL TELEPHONE LIST

Please read the enclosed material before calling for assistance.

How to file tariff pages -	(415) 557-3347 or (415) 557-0148 or (415) 557-3924 or (415) 557-3593
How to file a contract -	(415) 557-0615 or (415) 557-2699 or (415) 557-0608 or (415) 557-1868
How to file a Cost Justification -	(415) 557-2697 or (415) 557-3816 or (415) 557-1326 or (415) 557-3275 or (415) 557-0217
Information regarding Uniform System of Accounts, Annual Reports, Summary of Financial Data -	(415) 557-2484 or (415) 557-2485
To obtain Prevailing Wage Reports -	(415) 557-3859
To obtain Daily Transportation Calendar	(415) 557-1812
To obtain General Orders -	(415) 557-1812
To obtain a Distance Table -	(415) 557-1614
To obtain an Exempt List -	(415) 557-2804
To obtain copies of Tariffs, Contracts -	Obtain from the involved carrier
Information regarding licensing matters -	(415) 557-0377
To report violations -	(800) 533-3333 or (415) 557-2298

ATTACHMENT B

Program to Enforce the Truck Freight Cost Index Mandatory Increases

By Resolution CE 9-86, the Commission announced to the general commodity freight carriers that it intends to enforce the new regulatory program outlined in Decision 86-04-045 vigorously and impose heavy fines where warranted.

With the adoption of the 1988 annual Truck Freight Cost Index (TFCI) increases, the staff will continue the tough enforcement policy. By Resolution TS-683 approved today, all highway common carriers and highway contract carriers are required to increase their tariff or contract rates by the stated percentages no later than 60 days thereafter. Carriers electing not to increase their rates by the index amounts are required to file cost justification not more than 30 days after the TFCI increases so as to allow staff to approve or reject the cost filing by the aforementioned 60th day.

Enforcement action, as stated in the resolution, will commence on the 90th day against both classes of carriers if they fail to increase their rates, by imposition of a $750 fine. Further failure to take action will result in the suspension of the common carrier's certificated authority and the cancellation of the contract carrier's contracts. Field contacts will be made on carriers after suspensions of the certificated authority or cancellation of the contracts. If a certificated carrier continues to operate in defiance of the suspension, a citation forfeiture fine will be imposed, commensurate with the amount of traffic hauled under the assailed rates. The fine will be at least $750, plus an additional sum equal to the difference between revenue at the filed tariff rate and revenue that would have been earned had the TFCI increases been published. An undercharge citation will not be issued because the rate assessed, under the filed tariff doctrine, is the legal, albeit an unlawful rate.

A citation forfeiture fine in an amount not less than $750 will be imposed on a contract carrier that continues to serve the shipper with a cancelled contract. In addition, the staff will issue an undercharge citation, determining the undercharges by calculating the difference between charges at the assessed rate and charges at the generally applicable common carrier rate.

Should any carrier deny the allegation contained in the informal staff citations, the file will be forwarded to the Legal Division for preparation of an Order Instituting Investigation for the Commission's consideration. In the event the allegations are substantiated at the hearing, the staff urges the Commission to assess fines and penalties at the level originally computed. This will discourage burdensome filings, for the sole purpose of obtaining a reduced penalty.

During the last TFCI adjustment which mandated increases only on rates which were not subject to a minimum weight of 10,000 pounds or more, i.e., generally the less-than-truckload traffic, warning letters were sent to 343 common carriers and 1561 contract carriers. A total of 41 common carriers and 57 contract carriers were each fined $750. Subsequent enforcement against those carriers resulted in the suspension of the certificate authority of 18 common carriers and the invalidation of 170 contracts. We expect a higher degree of noncompliance during this latest round, because the increases will apply to both truckload and less-than-truckload carriers rather than only to ltl carriers.

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Resolution TS-683
Transportation Division

RESOLUTION

RESOLUTION IMPLEMENTING THE ANNUAL TRUCK FREIGHT COST INDEX AND ADOPTING THE LABOR RATIO

General Order (GO) 147-A in Decision (D.) 86-12-102 directs that all common and contract carriers subject to this order shall adjust their base and provisionally grandfathered rates in accordance with the most recently adopted Truck Freight Cost Index (TFCI). GO 147-A further specifies that any carrier electing not to increase rates shall either file a cost justification as provided in Rule 7.1 not more than 30 days after the effective date of this Resolution, or to the extent permitted by Rule 7.3, apply the rate window option.

Index calculations are to be made in July of each year, with quarterly updates published for informational purposes only throughout the year. A two part profitability test for dedicated contracts was also established in D. 86-12-102. One part of the test requires that contract carriers' ratio of profit and labor to all operating expenses be not less than the current TFCI truckload labor ratio calculated in the July index. The methodology for calculating the index is specified in Appendix E to D. 86-12-102.

The TFCI was designed as a system to track cost changes for motor carriers of truckload (TL) and less-than-truckload (LTL) general freight, for which proportionate rate changes are to be directed. Cost changes of 1% or more result in a mandatory rate change. However, a cost change of less than 1% is not required until the cumulative cost change equals or exceeds 1%. This allows carriers to decide whether the costs of administering such a small rate change are greater than the benefits.

BACKGROUND:

In compliance with the directives of decisions 86-04-045 and 86-12-102, the first index calculation was completed in July of last year (Resolution TS-679). The cost change calculated between the base year 1986 and July of 1987 for LTL transportation was an increase of 1.2% and for TL an increase of 0.7%. In accordance with the established policy for handling cost changes, a mandatory rate increase was ordered for LTL traffic and a permissive increase was allowed for TL traffic (since the cost change was less than the threshold of 1%).

The following table indicates the index change between 1986 and 1987 for both LTL and TL traffic as well as the estimated dollar value impact on LTL and TL traffic.

TABLE 1
($ in millions)

	Less-Than Truckload	
	1986	1987
Index	100	101.2
$ value	1,078	1,091

	Truckload	
	1986	1987
Index	100	100.7
$ value	1,025	1,032/*1,026

*1,026 represents estimated value for the 20% of carriers who took the increase, 1,032 is the value if 100% of carriers had taken the increase (see the Appendix for source of data and 1988 calculations).

Table 1 above illustrates that the mandatory 1.2% LTL rate increase resulted in an increase in transportation costs of approximately $13 million. The .7% permissive TL increase, taken by only 20% of the carriers, resulted in an estimated transportation cost increase of $1 million.

POLICY CONSIDERATIONS:

Although it was clear in decisions D.86-04-045 and D.86-12-102 that cost changes of 1% or greater were to require a mandatory rate increase, the manner in which the administratively permissive (less than 1%) rate changes were to be handled in the year or years following their occurrence was not specified when the TFCI was first implemented. An eventual disparity would occur over time between the amount of rate change carriers were ordered to take through the TFCI and the actual amount of cumulative cost change which the index had tracked if permissive increases were not mandated at some point. A policy needs to be developed for future handling of permissive increases and subsequent changes which accumulate to one percent or more.

DISCUSSION OF ALTERNATIVES

In the development of its policy recommendation for the handling of permissive rate changes calculated in the TFCI, staff considered three alternatives, mindful of the other ratemaking elements of the general freight regulatory program. The true flexibility elements of this program are a 60 day period to cost justify opting out of any index change altogether, the 5% window around base rates requiring no rate justification, dedicated contracts and cost justification of reduced rates. Carriers can specifically make use of the 5% rate window to increase or decrease a base rate that is affected by the TFCI. In addition, the Commission gave carriers the option to forgo a TFCI adjustment of less than one percent if the administrative burden of filing for such a small change was deemed by the carrier not to be cost effective. The three alternatives for handling changes below the 1.% threshold are as follows:

1. Permissive increase amounts are authorized only in the year they are first published, and carriers must take the increase/decrease within 60 days of the index order or forfeit the opportunity to change rates in conjunction with that index. Carriers must file mandatory rate changes, and may file permissive changes. TFCI publications in subsequent years will be independent of changes ordered in previous years and staff will only have to track index filings in the year they are made.

2. Permissive increases which are not taken by carriers in a year when the cumulative cost change is less than 1% can be included in the rate change amount in a subsequent year when the cumulative total of the change is 1% or more. The choice of whether or not to include a permissive change in a subsequent year's TFCI rate filing will be at the discretion of the individual carriers. Staff will have to track rate filings back to the base year to determine respective carrier rate levels.

3. Permissive changes from prior years will be incorporated into mandatory changes in the subsequent year or years, when the 1% threshold is crossed on a cumulative basis. The carrier could forego the administrative burden of filing for a less than 1% change only until a subsequent change in the index results in the crossing of the 1% threshold. Thus, equalization of rate levels (since the base year) will occur in every year in which the cumulative cost change since the last mandatory rate order is 1% or more. Staff will have to track rate filings back to the last year a mandatory change was ordered for the respective index series.

Alternative 1 -One-Time-Only Permissive Increases

PRO - This alternative poses the least administrative burden to staff, as it does not require tracking of carrier rate increases from year to year. Moreover, it represents a savings to shippers (and presumably a similar amount to the ultimate consumer) of approximately $6 million, as 80% of the carriers declined to take the TL increase. It adds an element of flexibility as well, because carriers take only those permissive increases which they feel match their own cost changes.

CON - This alternative ignores the basic purpose of an index system, which is to track cost changes over time in order to adjust rates. The Commission recognized the impracticality of requiring rate adjustments for very small index changes, indicating that cumulative adjustments would be considered for succeeding years depending on the number of carriers who had applied the permissive changes. The ommission of a succession of index changes which over time add up to 1% or more results in rate changes which no longer reflect the cost changes indicated by the TFCI calculations.

Alternative 1 - Effect in 1988	Required Rate Increase	
	LTL	2.4% -$26 million
	TL	1.8% -$18 million

Alternative 2 -Discretionary Use of Permissive Increases

PRO - This alternative would allow carriers maximum flexibility when making TFCI rate changes. Carriers realize some additional rate flexibility while shippers are not burdened by a mandatory rate change. Moreover, the index tracks all cost changes over time, but it allows the carriers to choose whether or not to take those changes which are less than 1%. Thus, on a cumulative basis it functions as a supplement to the 5% rate window.

CON - This would be the most administratively burdensome alternative for staff because it requires that they track carrier rate filings as far back as the TFCI base year. It is also likely that this handling of permissive increases would be viewed as an indirect way of broadening the rate window without addressing the adequacy of the rate window directly. The opting out provision for "mandatory" adjustment (above the 1% threshold) would be viewed as making this additional flexibility excessive.

Alternative 2 - Effect in 1988	Required Rate Increase	Authorized Rate Increase
LTL	2.4% -$26m	2.4% - $26m
TL	1.8% -$18m	2.5% - $25m

Alternative 3 -Mandatory Cumulative Method

PRO - This policy could be viewed as most consistent with the original intent of the TFCI element of the regulatory program because it requires rate changes proportionate to index-tracked cost changes within the framework of the 60-day opting out provision and the 5% window around base rates. Its advantage is that it provides a predictable base from which to calculate changes which may occur from year to year in implementation of the TFCI.

CON - Subject to the cost justification provision for opting out, this rate change policy permits the largest possible rate increases/decreases over time. As in alternative #2, it would imposes implementing burdens on the staff. Finally, in a year with a permissive index order, this policy prohibits carriers from taking the rate change amount after sixty days, but orders them to take that same change in the subsequent year unless they opt out by cost justification.

Alternative 3 - Effect in 1988	Required Rate Increase
LTL	2.4% - $26m
TL	2.5% - $25m

ANALYSIS

All three alternatives suggested for dealing with permissive rate amounts in conjunction with TFCI rate orders have advantages and drawbacks.

Alternative 1 (the one time only use of index changes) is the most simple, but also the least flexible. It does not fulfill the purpose of an index over time.

Alternative 2 (the discretionary method) allows the carrier greater discretion when a subsequent adjustment, on a cumulative basis, pushes a prior change of less than 1% through the threshold for a required change within the opting out framework. The alternative attempts to reach a compromise between Alternatives Nos. 1 and 3, but it does so by expending the kind of rate flexibility intended to be provided to carriers by the five percent rate window, not the discretion related to the possible "administrative" burden of a less than one percent change.

Alternative 3 (the mandatory cumulative method) meshes well with the tariff filing framework that we now have in place with provision for TFCI adjustments on an opting out basis, a rate window, cost justification of rate changes and a dedicated equipment option. We should utilize this alternative pending changes that may be made in the tariff filing structure itself in our current review of regulatory alternatives.

However, as pointed out below, in the early stages of developing the TFCI when surrogates are subject to considerable changes it would be reasonable to employ the Alternative #2 method for this adjustment only.

RECOMMENDATION:

The alternative selected by the Commission should be consistent with the overall transportation rate framework that we adopted in D.86-04-045 and more fully specified in D.86-12-102. Carriers were given discretion to either accept rates established by the most recently Commission-adopted Truck Freight Cost Index (TFCI) or to justify deviations from TFCI-based rates within 60 days after the effective date of the new TFCI. Even if the carrier failed to cost-justify a deviation from the TFCI-based rates, it could exercise rate flexibility within a 5% band around the TFCI-based rate. Finally, to mitigate the administrative burden of filing rates that reflected an insignificant change in the TFCI, we adopted the staff's suggestion that carriers be excused from filing changes in rates when the TFCI for that year was 1% or less. Given the flexibility accorded carriers by the cost justification process and the 5% rate window, it would be inconsistent with our regulatory framework to permit incremental changes to accumulate without being reflected in the TFCI index. The resulting deviation would gradually create an index that bears no relation to the cost surrogates which we so conscientiously adopted for the industry.

The staff recognized an undue administrative burden falling on carriers and the staff if changes in rates are required for index changes as small as one tenth of one percent, as requested by some parties. Staff therefore, recommended that no index change less than 1% result in mandatory rate changes for common or contract carriers. (D.86-12-120, mimeo p.9.) This recommendation was incorporated in the "Truck Freight Cost Index: Handbook for Calculation", which the Commission adopted in its implementing decision.

The TFCI for both truckload and less than truckload rates exceeds 1%. Clearly, carriers will have to file new rates to reflect the change in TFCI. Given this fact, there is no reason based on administrative burden to defer the recognition of the 1987 change in the TFCI which was less than 1%. Transportation rates should be filed to reflect the cumulative change in the TFCI, except as provided below for the current adjustment.

However, we are mindful that the formulation of cost surrogates to be used in the calculation of the TFCI is still being refined. In fact, our staff has circulated a "white paper" suggesting modifications to the costing factors which we have not yet formally considered. During this period, we cannot be assured of consistent results if the two changes in the TFCI were simply added together. Therefore, we will not require the 1988 TFCI to incorporate the 1987 change in the TFCI as we ordinarily would pursuant to D.86-12-120 and its implementing instructions, the Truck Freight Cost Index Handbook.

Since we have considered this issue, we anticipate that future changes to the TFCI will be based on consistent criteria from year to year. In the future, unless or until the program is further revised as a result of a possible Commission investigation, we will require that changes to the TFCI which are not reflected in rates one year due to the 1% "administrative burden" exemption must be added to the change in the TFCI calculated for the following year (Alternative 3). If the sum of the TFCI exceeds 1% in any year, then it should be used as the basis for filed rates. As to the 0.7% calculated for 1987, that increment will not be reflected in the TFCI.

In this light, we will adopt Alternative 2. While we decline to add the 1987 change to the 1988 change for the purpose of establishing an industry-wide standard, we expect that individual carriers will gauge their own costs against the TL index of 1.8%. If that increment is inadequate to reflect the individual carrier's cost experience, and the carrier has not taken all or part of last year's permissive increase of 0.7% authorized by TS-679, then the carrier can use the 0.7% TL TFCI which it passed up in 1987 to establish rates closer to its own costs. In this way, no carrier will be prejudiced by our failure to add the 1987 TFCI increment to this year's TFCI.

FINDINGS OF FACT

1. The TFCI applies to those carriers and to that transportation subject to GO 147-A.

2. Increases in carrier rates based on current TFCI changes in operational costs are consistent with the findings in D. 86-04-045 and are justified.

3. Rate filings may be made by a surcharge supplement or by increasing the individual rates and charges by the amounts specified in the index.

4. The labor ratio applies to carriers filing dedicated contracts in accordance with Rule 7.2 (a) of GO 147-A.

Conclusions of Law

1. Common and contract carriers should be ordered to increase by 2.4% those base and provisionally grandfathered rates subject to GO 147-A that are for any transportation which is not subject to a minimum weight of 10,000 pounds or more or to a minimum volume of 1,440 cubic feet or more.

2. Common and contract carriers should be ordered to increase by 1.8% those base and provisionally grandfathered rates subject to GO 147-A that are for transportation which is subject to a minimum weight of 10,000 pounds or more or a minimum volume of 1,440 cubic feet or more. Carriers who did not take all or part of last year's permissive increase of .7%, authorized by TS-679, may increase these rates by an amount which, together with the increase already taken, will result in a combined increase of 2.5%.

3. The labor ratio of 47.82% should be adopted for the labor cost requirement in dedicated contracts.

4. The permissive exemption from the requirement of filing rates to reflect changes in the TFCI which is available when the change in the TFCI is 1% or less works a postponement of such change to the TFCI only until the change in the TFCI exceeds 1%. At such time, the previous change in TFCI must be added to the current year's change in TFCI so that it is given effect in carrier rates.

5. Because the addition of the 1987 TL TFCI to the 1988 TL TFCI would result in an internally inconsistent cost index, the 1987 TL TFCI should be disregarded and should not be recognized in any subsequent TFCI.

6. This order should be effective on the date signed because there is immediate need for the implementation of the TFCI.

IT IS ORDERED that:

1. Common and contract carriers are ordered to increase by 2.4% those base and provisionally grandfathered rates for transportation which is not subject to a minimum weight of 10,000 pounds or more or which is not subject to a minimum volume of 1,440 cubic feet or more.

2. Common and contract carriers are ordered to increase by 1.8% those base and provisionally grandfathered rates for transportation which is subject to a minimum weight of 10,000 pounds or more or a minimum volume of 1,440 cubic feet or more. Carriers who did not take all or part of last year's permissive increase of .7% authorized by Resolution TS-679 may increase these rates resulting in an increase no greater than 2.5%.

3. Tariff publications required to be filed as a result of this order may be made effective on or after the effective date of this order, on not less than one day's notice to the Commission and the public, and shall be effective not later than 60 days after the effective date of this order.

4. Amendments to contracts and/or contract rate schedules ordered to be filed as a result of this order may be made effective on or after the effective date of this order on not less than one day's notice to the Commission and the public, and shall be effective not later than 60 days after the effective date of this order.

5. Any rate established between August 10, 1988 and October 8, 1988 which is based on a rate required to be increased as a result of this order shall reflect the same adjustment within the same time period as those required of the rate upon which it is based.

6. Common carriers failing to comply with this order shall be subject to a fine of $750, and in the event of further non-compliance, shall have their common carrier authority suspended.

7. Contract carriers failing to comply with this order shall be subject to a fine of $750, and in the event of further non-compliance, shall have all affected contracts cancelled.

8. Common carriers increasing rates in accordance with this order are authorized to depart from the provisions of Public Utilities Code Section 461.5 to the extent necessary to adjust long- and short-haul departures now maintained under outstanding authorizations to the extent necessary to allow such rate filings.

9. The ratio of labor to all truckload cost elements to be used for dedicated contracts which are effective on or after August 10, 1988 is 47.82%.

10. The Executive Director shall serve a copy of this Resolution on all highway common and contract carriers subject to GO 147-A.

This Resolution is effective today.

I hereby certify that the foregoing resolution was duly introduced, passed and adopted at a regular meeting of the Public Utilities Commission of the State of California, held on August 10, 1988. The following Commissioners approved it.

STANLEY W. HULETT
President
DONALD VIAL
FREDERICK R. DUDA
G. MITCHELL WILK
JOHN B. OHANIAN
Commissioners

Executive Director

APPENDIX

ANNUAL CALCULATION OF THE TFCI

The TFCI is calculated annually in July for the seven expense categories listed under column 1 of the following table.

Price Indices
Cost changes are determined for each expense category through the use of surrogates or price indices as shown in columns 2 and 3. For all cost categories other than labor and insurance, various Producer Price Indices (PPI) are used for determining changes in price levels. The base period indices shown in Column 3 represents price levels at the time the index was adopted by the Commission. The current period cost figures (Column 2) represent the most recent PPI listings. The precentage change indicated in Column 4 represents the overall price difference between the base year and the current year for each price surrogate or index.

The Commission's Prevailing Wage Report is used to determine price index changes for labor, while assigned risk rates and a survey of major insurance companies' premium levels are used to calculate the insurance cost changes.

Cost Weights
The relative importance of each cost change is proportioned by calculating the expenses of Class I and II intrastate general freight motor carriers as shown in their current annual report data. The cost weights for LTL and TL traffic expenses are shown in Columns 5 and 6.

Relative Importance of Cost Changes
To determine the individual and overall cost changes from 1986 to 1988 the percentage index change is multiplied by the corresonding LTL and TL weights (as shown in column 8 of the table). These results are then summed for all seven expense categories, thereby giving the overall percentage cost change for both LTL and TL traffic. To make it less burdensome for the carriers when filing rates, the overall percentage cost change is rounded to the nearest tenth percent.

Index Changes by years
The 1987-88 cost change is calculated by substracting last year's value (1.2 for LTL and .7% for TL) from the overall cost changes since 1986-88 (3.6% for LTL and 2.5% for TL). The price changes for 1986-87 and 1987-88 appear at the bottom of Columns 7 and 8.

JULY 1988 TFCI ANNUAL CALCULATION

COLUMN (1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Price Indices			Cost Weights		%Change x Cost Weight	
EXPENSE	CURRENT (1988)	BASE (1986)	%CHANGE	LTL	TL	LTL COST (%)CHANGE	TL COST (%)CHANGE
FUEL	426.4	671.7	-36.52%	6.51%	8.61%	-2.38	-3.14%
MAINT	368.1	355.8	3.46%	6.06%	9.24%	0.21%	0.32%
TIRES	249.2	243.2	2.47%	1.14%	1.91%	0.3%	0.05%
FIXED	2582.9	2241.5	15.23%	6.97%	8.23%	1.06%	1.25%
OVERHEAD	314.7	310.2	1.45%	20.92%	18.98%	0.30%	0.26%
LABOR							
TL	16.9884	15.5512	9.24%		47.82%		
LTL	19.3076	17.6564	9.35%	52.98%		4.95%	4.42%
INSURANCE	64708	72470	-10.71%	5.42%	6.10%	-0.58%	0.65%

	LTL	TL
% Cost Change for INDEX (1986-88)	3.60% 3.60%	2.50% 2.50%
% Cost change for '86-87	1.20%	0.70%
% Cost change for '87-88	2.40%	1.80%

REVENUE IMPACT (1987, PROJECTED 1988)

(in millions of dollars)

	1986	1987	1988
LTL	100	101.2	103.6
$	1,078	1,091	1,117

	1986	1987	1988
TL	100	100.7	102.5
$	1,025	1,026*	1,050**
		1,032**	1,044*#

* with 20% of carriers taking increase in 1987
** with 100% of carriers taking full amount of increase
*# with all carriers taking amount of increase from 1987 to 1988

(Revenue figures were derived from an expanded 1984 Revenue Distribution Report.