the residents of the city or was this added to the general revenues of the city?

Mr. TALLY. We passed on every penny of it. When we filed the complaint with the Federal Power Commission we put in the sworn document itself the pledge to do that. The day the agreement was signed we revised the rates and passed every penny of it on.

Mr. BROYHILL. In Fayetteville and these other cities which are operating electric systems, is it true that a substantial part of their revenue comes from the sale of power?

Mr. TALLY. Yes, sir. If a municipal system does what it should, if it is run in the sense of a public trust and in the way a good business should be run, then they should pass on to the general budget of the city only what would be the equivalent of Federal and State taxes and dividends and other items that private power companies would otherwise have to account for. The utilities operation of a municipality should never jeopardize its own operations by underestimating their reserves for depreciation or for future development, or any other good business principle or practice, nor should they subsidize the general budget of the city.

I am aware there are always possibilities of abuse in that, but in our city, and I hope in most of the 73 cities and towns so far as we encourage it and supervise it, we are trying to have them understand that must be so.

Mr. BROYHILL. The two major utilities operated in North Carolina are Duke Power and Carolina Power & Light. How are the retail rates that they offer compared with the retail rates offered by the municipally owned systems?

Mr. TALLY. First let me say that you are correct. They are the two major ones; but Vepco serves quite a large portion of northeastern Carolina. The rates of our 73 municipals, generally speaking, are comparable to and as low as or as high as—however you care to use the word—the three private power companies that we have mentioned. In the case of our larger municipal systems, such as Fayetteville and High Point and Statesville and the like, not only are our rates as low as those of Duke and Carolina Power & Light, but in some instances they are lower.

That may seem strange on the surface but you have to realize one fact of the strange economics of electrical generation, transmission and distribution. These giant private power companies are taking advantage of a technological phenomena, as they should: the advantage of scale or size.

In generation and transmission the larger you are the cheaper you put the product at the point where it is going to be distributed. When you come to the distribution part of it, that is the third phase, generation, transmission and distribution. When you come to the distribution part of it, the figures from the Federal Power Commission collected over a great number of years show that even medium to small-size distribution systems, whether they are privately owned or publicly owned, as REA or municipals, do that part of the economic process in the electric power industry, as cheaply as can these giant companies. Indeed, the record is even better over the last decade for municipals and other publicly owned medium to small-size distribution systems than for the big private power companies. They have actually cost their