

ORIGINAL

Decision No. 23589.

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

CALIFORNIA FARM BUREAU FEDERATION,
J. J. DEUEL, et al.,

Complainants,

vs.

Case No. 2992.

SAN JOAQUIN LIGHT AND POWER CORPORATION,

Defendants.

In the Matter of the Investigation upon the Commission's own motion into the electric rates, rules, regulations, charges, classifications, rentals, practices, contracts and service, or any of them, of SAN JOAQUIN LIGHT AND POWER CORPORATION.

Case No. 3008.

In the Matter of the Investigation upon the Commission's own motion into the electric rates, rules, regulations, charges, classifications, rentals, practices, contracts and service, or any of them, of MIDLAND COUNTIES PUBLIC SERVICE CORPORATION.

Case No. 3026.

J. J. Deuel and L. S. Wing, for California Farm Bureau Federation.

Lester S. Ready, for National Ice & Cold Storage Company, Union Ice Company, Pacific States Cold Storage Warehousemen's Association and California Association of Ice Industries.

L. B. Hayhurst, for Fresno Irrigation District, Alta Irrigation District, Consolidated Irrigation District; also Kings River Water Association and the following constituent units, members of said Association: Alta Irrigation District, Cuthbert-Burrell Company, Consolidated Irrigation District, Corcoran Irrigation District, Crescent Canal Company, Fresno Irrigation District, Laguna Irrigation District, Lemoore Canal & Irrigation Company, Last Chance Water Ditch Company, Rivendale Irrigation District, Liberty Mill Race Company, Reed Ditch Company, Liberty Canal Company, Stinson Canal & Irrigation District, Tranquillity Irrigation District, John Reinlen Company, Foothill Irrigation District.

R. B. Harris, for Consolidated Irrigation District.

Claude L. Rowe, City Attorney, for City of Fresno and the League of South San Joaquin Municipalities.

C. P. Cutten and Chaffee E. Hall, for San Joaquin Light & Power Corporation and Midland Counties Public Service Corporation.

T. A. Hunter, for Globe Grain & Milling Company.

CARR AND HARRIS, COMMISSIONERS:

O P I N I O N

The three cases noted in the title were set for hearing at Fresno on March 10, 1931, at which time they were ordered consolidated, authority for the acquisition of Midland Counties Public Service Corporation by San Joaquin Light and Power Corporation having been sought. (Such acquisition was authorized by Decision No. 23508 on March 16, 1931.) Evidence as to the earning position of the two utilities during 1928, 1929 and 1930, as well as to the cost of money invested in their properties, was presented by members of the Commission's technical staff. The showing thus made indicating an earning position somewhat above that usually deemed reasonable by the Commission, the Commissioners presiding stated they would recommend to the Commission the issuance of orders directed to the utilities to show cause why interim or emergency decreases in their electric rates should not be made. Such order was made.¹ Public hearings on the cases and on the orders therein were held on March 10, 11, 19, 20, 24, 25, 26 and 27, 1931. The evidence was concluded on March 27th, except for certain details since covered by stipulation, and on April 2nd and 3rd oral argument before the entire Commission was had on the issue of whether or not an interim or

1. The procedure followed was that outlined and used in Re Pacific Gas & Electric Co., 34 C.R.C. 212, where reduced interim rates were ordered. Under a somewhat different procedure a similar result was accomplished in 1922 respecting the rates of Southern California Edison Company (Re So. Calif. Ed. Co., 21 C.R.C. 597). The procedure there followed was referred to with approval by the Supreme Court in Saunby v. Railroad Commission, 191 Cal. 226.

emergency order should be made and if so of what character.

In April, 1916, the Commission, following full and extensive hearings on San Joaquin Light and Power Corporation in which questions of valuation, earnings, operating costs and service were considered at length, rendered its decision fixing the rates to be charged by the utility (East Bakersfield Imp. Assn. vs. San Joaquin Light & Power Corporation, 9 C.R.C. 542). The order thus rendered was, at the instance of the company, reviewed by the Supreme Court, which in May 1917 sustained the Commission's order (San Joaquin Light & Power Corp. v. Railroad Commission, 175 Cal. 74). The valuation fixed by the Commission was there fully upheld. The next year, on February 14, 1918, the San Joaquin Corporation applied for permission to surcharge the rates previously fixed by the Commission and upheld by the Supreme Court; and in May, 1918, the Commission made its order authorizing the company to surcharge its bills by 10 per cent, which, it was estimated, would enable the company to earn an 8 per cent return during 1918. (Re San Joaquin Light & Power Corp., 15 C.R.C. 768.) This surcharge failing to keep the company's earnings on an 8 per cent level in 1918, in September of that year the utility applied for a further surcharge; and in January, 1919, the Commission permitted it to increase the surcharge to 15 per cent. (Re San Joaquin Light & Power Corp., 16 C.R.C. 440) On December 2, 1919, the company filed application seeking a further increase in rates and, in March 1920, the Commission made its order authorizing a further temporary increase, calculated to bring its return to an 8 per cent basis. (Re San Joaquin Light & Power Corp., 17 C.R.C. 940.) In April, 1922, the Commission, by a somewhat exhaustive opinion and order reviewed the rate structure of the utility and established a series of new rates (Re San Joaquin Light & Power Corp., 21 C.R.C. 545). The rates thus established have continued in effect until the present time, with the exception of certain reductions, prin-

cipally in the agricultural schedules, voluntarily extended in 1928 and 1929.

As to the Midland Company, the Commission, in May 1920, on an application filed April 5, 1920, authorized certain increases in rates (Re Midland Counties Public Service Corp., 18 C.R.C. 192). On the same application and in February 1924, it appearing the company was earning at the rate of 9.22 per cent, a reduction in rates was ordered (Re Midland Counties Public Service Corporation, 24 C.R.C. 544). No changes have since been made in these rates, except for certain voluntary reductions in 1928.

The territory served by these utilities is agricultural in character. The principal city in the territory is Fresno, although there are various other sizable cities in the region covered by their systems. Prices of agricultural products have declined until 1930 and 1931, when they broke to extremely low levels. The following table, taken from Exhibit No. 28, forcefully indicates what has been happening:

AVERAGE PRICE OF FARM PRODUCTS TO THE GROWER						
	(1)	(2)	(3)	(4)	(5)	(6)
Year	Cotton : Average : Cts. per : Pound	Alfalfa : Average : Dollars	Dried : Peaches : Per Lb. : Cts.	Butter : Fat : Per Lb. : Cts.	Raisins : Per Ton : Farm : Value : Dollars	Wine : Grapes : Per Ton : Farm : Value : Dollars
1922	26.5	14.00	7.15	47.80	105.00	65.00
1923	29.5	9.00	4.74	54.75	70.00	40.00
1924	25.5	13.50	5.12	47.75	70.00	63.00
1925	23.0	10.00	10.60	54.00	80.00	60.00
1926	16.2	9.00	7.60	50.00	70.00	45.00
1927	21.0	11.00	3.52	53.33	60.00	45.00
1928	19.0	11.00	7.32	54.50	40.00	25.00
1929	17.5	11.00	8.63	54.75	46.00	29.00
1930	10.5	8.50	4.50	44.00	48.00	19.00
Mar. 1931		6.00		30.00		

Concurrently, with the decline in value of farm products, water levels have been lowering with a consequent increased require-

ment for power for pumping. The critical condition of the farmer has made itself felt in the cities, the economic condition of which largely reflects that of the territory surrounding them. To paraphrase the language of witnesses offered by the utilities, lands in the San Joaquin Valley, both city and country, have depreciated in value. Leading department stores and other businesses in Fresno are not making more than 4 per cent on their investment and are lucky to make expenses. One large Fresno bank, considering the loss in farming foreclosed property and decline in value of such property, probably has not been making anything on farm loans. Indeed, the distressed conditions of the San Joaquin Valley as portrayed at the hearings is such as to impel that measure of expeditious and helpful action here as may be had, consistent with the rights of the two companies affected.

The following table indicates the earning position of the consolidated utilities in the years 1928, 1929 and 1930. The rate base figures are arrived at by adding net book additions and betterments to the fixed capital as found in 1916 (9 C.R.C. 542) and sustained by the Supreme Court (175 Cal. 74). For the purposes of this order no deductions are made as was done in the 1922 order affecting the San Joaquin Corporation. Working cash capital and materials and supplies are those used by the utilities. A headwater liability to Southern California Edison Company, not entered upon the books, and as computed by the San Joaquin Corporation, is included in expense. Otherwise the table corresponds to that contained in Exhibit No. 1.

CONSOLIDATED OPERATING STATEMENT

ELECTRIC DEPARTMENTS

SAN JOAQUIN LIGHT AND POWER CORPORATION -
MIDLAND COUNTIES PUBLIC SERVICE CORPORATION.

	: 1928	: 1929	: 1930
Rate Base,	\$60,743,014.	\$64,635,816.	\$69,058,635.
Gross Revenue,	10,331,932.	11,350,775.	12,380,985.
Operating Expense,	5,261,224.	5,767,871.	6,580,162.
Net Revenue,	5,070,708.	5,582,904.	5,800,823.
Per Cent Return,	8.35	8.64	8.40

Various estimates respecting probable 1931 results were advanced by the companies. They take a rather pessimistic view of the year's prospects. Revenue they think will increase but 2.4 per cent over 1930, as contrasted with an increase of 9.1 per cent 1930 over 1929 and 9.9 per cent 1929 over 1928, despite a voluntary reduction in rates in 1929. Falling off in the rate of acceleration of the agricultural power load is their explanation for the low estimate for 1931. On the other hand, they estimate additions and betterments to capital will increase 6.1 per cent over 1930, as contrasted with a 6.8 per cent increase 1930 over 1929 and a 6.4 per cent increase 1929 over 1928. Operating expenses, too, they estimate will increase 7.8 per cent in 1931, as compared with an increase of 14.1 per cent in 1930 over 1929 and 9.6 per cent 1929 over 1928. Their operating expense estimate clearly is subject to a deduction of \$15,000. for savings to be effected by consolidation. An item in general expense for general and billboard advertising, which was "handed" to Mr. Moore, Executive Engineer, who presented the estimates, does not seem essential in view of the liberal estimates for new business expense. With the dry year contemplated in 1931 the estimate of headwater liability is excessive. A large item for valuation spread by the companies over a five-year period, in view of the infrequency of the occurrence of this item of expense, may well be amortized over a longer period, should this item in full be deemed proper when these cases are finally disposed of.

The companies' claim for increased allowance for State

taxes is not sound under the circumstances. Should the usual Commission basis of computing State taxes be followed, there would be a reduction in working cash capital. For the purposes of this order it is reasonable to follow the companies' current practice both as to computing State taxes and working cash. No change is made in the depreciation annuity set up in the companies' books and as followed in the 1931 estimate. While the companies claimed there was a certain loss on the present basis of computation, their witness was unable to say the annuity was incorrect. Furthermore they have not seen fit to add to the depreciation annuity although their earnings in recent years have been high enough to permit of this had it been deemed necessary.

On the basis of the record before the Commission and for the purposes of this order, it is reasonable to conclude that the net earnings under present rates available for return in 1931 will be not less than \$5,660,000.

Two claims advanced or suggested by the companies respecting rate base justify brief mention. One witness testified to going concern value of from \$7,500,000. to \$10,800,000. The evidence was not convincing. The only tangible measure of this intangible that was suggested by him was the cost of reproducing the business. This item of cost as actually incurred, under prescribed accounting rules, is to be found in new business expense, the aggregate of which is \$2,140,142. Should the companies be permitted to capitalize this aggregate amount in the form of an allowance for going concern value, logically there would have to be deducted from current operating expenses as estimated the sum of \$236,000. for new business expense. Such method of treatment would not work any appreciable change in the statement of the companies' earning position.

Mr. Ryan, valuation engineer for the utilities, expressed

the opinion that when a pending valuation of the companies' property is concluded the reproduction cost estimate of value would be higher than the historical cost.² So far as changes in price levels have any effect on the historical cost, Mr. Dufour's testimony that the application of present prices in lieu of the historical prices would reduce the historical cost by from 3 to 6 per cent stands uncontradicted. Under the record here there is no good reason for disregarding actual cost as the most dependable measure for determining a rate base.

The record in these proceedings presents an anomalous situation. On the one hand throughout the territory served by the companies the prices for agricultural products are lower than they have been for many years past. Agriculturists have been reducing their production costs which are under their control. Even with their lower production costs many are not realizing enough for their products to meet their operating expenses, to say nothing about a return on their investments. The testimony of the companies' own witnesses shows that not only in the farming districts, but in the City of Fresno self, business conditions are depressed and many enterprises are earning only a nominal return on their investments. One prominent Fresno banker offered as a witness by the companies, testified that he, under ordinary circumstances, was charging seven per cent interest on mortgage loans, but that the net to the bank, because of existing defaults, was less than seven per cent. Another testified that interest rates are lower than they have been for many years.

On the other hand, the companies urge that they should be allowed a return of from eight to eight and one-half per cent.

2. The opinion in Re Los Angeles Gas & Electric indicates the extreme results accomplished by making so-called reproduction new estimates of head allowances, and allowances for promoters' financing, difficulty factors and the like. These are built up although the effect of changes in cost are insignificant.

CORRECTION

CORRECTION

THIS DOCUMENT
HAS BEEN REPHOTOGRAPHED
TO ASSURE LEGIBILITY

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On the other hand, the companies urge that they should be allowed a return of from eight to eight and one-half per cent. The

2. The opinion in Re Los Angeles Gas & Electric Co., 35 C.R.C. 443, indicates the extreme results accomplished by expert witnesses in making so-called reproduction new estimates of value. By heavy overhead allowances, and allowances for promoters' profits, cost of financing, difficulty factors and the like, large figures as to value are built up although the effect of changes in price levels on original cost are insignificant.

evidence shows little or no attempt on their part to curtail expenses. Their estimate of 1931 operating expenses shows a substantial increase over the actual for 1930, though the revenues are estimated to increase at a much lesser rate. A return of eight to eight and one-half per cent is asked, in spite of the fact that the companies' bonds today are selling on a yield basis of less than five per cent, and the preferred stocks on a yield basis of about six per cent, while six per cent is paid on current liabilities and depreciation reserve moneys invested in the properties. The money obtained from the four sources has cost the companies from 6.05 per cent to 6.48 per cent, depending upon the basis used to amortize bond discount and expense. Not less than 89½ per cent of the money invested in the rate base is attributable to preferred stock, bond, current liabilities and depreciation reserve money. A net for return in 1931 of approximately \$5,130,000., estimated to be the net under the reduced rates here ordered, would permit the companies to meet their fixed financial requirements on outstanding preferred stocks, bonds, current liabilities and depreciation reserve and leave a balance sufficient to yield at least eleven per cent on any common stock money invested in the properties. Such an earning will under the facts here present constitute a fair and reasonable return.

Had the order here made directing reduced rates been effective from the first of the year, the companies' 1931 revenue as estimated under present rates would be decreased by approximately \$600,000. and its net for return by approximately \$530,000., the difference between the two figures being due to the lesser Federal income tax accruals attributable to a lesser net earning. (Under the companies' method of accruing for State taxes the reduction in this item will be reflected in 1932.) Such an interim reduction of rates is one to which the companies should have no just or legal ground for complaint and, while perhaps representing the maximum which this

Commission is justified in ordering under the record here made, might well, as a matter of company policy, be increased in view of the distressed condition of the companies' territory and consumers, for the utilities may, of course, do voluntarily that which the Commission may not order them to do. The companies indicate that they will be prepared to offer such further evidence appropriate and pertinent to a general rate case as they propose to offer by October 1st of this year. If these claims are realized, the interim rates here ordered should be superseded by permanent rates by the first of next year, and the companies will have operated under the reduced rates for but two-thirds of the year 1931. The order will direct these consolidated cases to be placed on the calendar so that the utilities and consumers will be given every opportunity to present such further evidence as they may desire and the proceedings will be hastened to a final determination.

The most difficult question here presented centers about the spread of rates. It is enough to say that after the most careful consideration of the record, including evidence as to the ability of agricultural power consumers to pay and the value to them of the service, the effect on the utilities of sustaining the agricultural power load, as well as the history of the rate changes of these two utilities and a comparison of their rates with the rates of other major utilities, the conclusion has been reached that bills rendered for agricultural power on meter readings on and after May 1, 1931, should be discounted for a period of four months only as to the energy portion thereof and that lighting, heating and cooking rates, within incorporated cities, and general power rates should be reduced. Under the order, agricultural power users will be benefited to the extent of approximately \$450,000. and other consumers specified on an annual basis by approximately \$150,000.

The rates of these companies for general power service are not far distant from those of other companies with which comparison may be made except for certain conditions governing their application. Included in the above figure of \$150,000. is the reduction in revenue resulting from the modification of these conditions. Certain rates of both San Joaquin and Midland companies now compare favorably with the rates of other companies with which comparison has principally been made by witnesses appearing in this proceeding and it has seemed advisable that no changes in such rates be made at this time, thereby increasing the amount of the immediate reduction which may be made in such other rates as have been shown to be definitely out of line.

We recommend the following form of order.

O R D E R

The Railroad Commission having instituted proceedings on its own motion into the electric rates, rules, regulations, charges, classifications, rentals, practices, contracts and service or any of them of San Joaquin Light and Power Corporation and Midland Counties Public Service Corporation, the California Farm Bureau Federation having entered a complaint against the agricultural electric power rates of San Joaquin Light and Power Corporation (which said cases were consolidated for hearing), the Commission having ordered San Joaquin Light and Power Corporation and Midland Counties Public Service Corporation to show cause why interim or emergency decreases in their electric rates should not be made, public hearings having been held and the matter being

submitted and now ready for decision.

The Railroad Commission Hereby Finds as a Fact that the electric rates charged by San Joaquin Light and Power Corporation and Midland Counties Public Service Corporation for electric service now in effect are, under the circumstances here present, unjust and unreasonable in so far as they differ from the rates as modified herein, which modified rates are found, under said circumstances, to be just and reasonable for the service rendered, based upon regular meter readings taken on and after May 1, 1931.

Based on the foregoing findings of fact and the findings of fact set forth in the Opinion preceding this Order,

IT IS HEREBY ORDERED that,

I. San Joaquin Light and Power Corporation apply to bills for agricultural power service under Schedules P-2 and P-5, based upon regular monthly meter readings taken on and after May 1, 1931, and on or before August 31, 1931, a discount of 20 per cent of the energy charge (but not of the demand charge) shown on such bills.

II. That Midland Counties Public Service Corporation apply to bills for agricultural power service under Schedule P-3, based upon regular monthly meter readings taken on and after May 1, 1931, and on or before August 31, 1931, a discount of 20 per cent of the energy charge (but not of the demand charge) shown on such bills.

III. San Joaquin Light and Power Corporation and Midland Counties Public Service Corporation indicate on bills for

agricultural power service, discounted in accordance with the provisions of paragraphs I and II and this Order, the amount of such discount by means of a notation substantially as follows:

"Discount ordered by Railroad Commission,
effective only for May, June, July and
August, _____."

IV. On or before May 1, 1931, San Joaquin Light and Power Corporation and Midland Counties Public Service Corporation refile with this Commission their Schedules P-1, General Power, and P-5, Wholesale Power, embodying therein provisions for the use of incidental lighting and a power factor clause substantially similar to such provisions now embodied in the corresponding schedules of Pacific Gas and Electric Company.

V. Effective with bills based upon regular monthly meter readings taken on and after May 1, 1931, San Joaquin Light and Power Corporation and Midland Counties Public Service Corporation charge and collect for service supplied to consumers qualifying thereunder the schedules of rates set forth in Exhibit "A" attached hereto and made a part of this Order. Such schedules shall be filed with this Commission on or before May 1, 1931, and shall supersede existing schedules only in the territory to which they are applicable.

VI. The foregoing modifications in rates, except as otherwise specified, are to remain in effect only during the pendency of these proceedings and until further order of the Railroad Commission herein. These cases shall be placed on the calendar for further hearing on May 26, 1931, at 10:00 A. M. at Fresno.

VII. Except as otherwise provided, the effective date of this Order shall be twenty (20) days from the date hereof.

The foregoing Opinion and Order are hereby approved and ordered filed as the Opinion and Order of the Railroad Commission of the State of California.

Dated at San Francisco, California, this 8th day of April, 1931.

C. L. ...
Leon Oldfather

M. J. ...

M. B. Harris

Fred G. Stewart
 Commissioners.

CAO

EXHIBIT "A"

SAN JOAQUIN LIGHT AND POWER CORPORATIONSCHEDULE L-6GENERAL DOMESTIC AND COMMERCIAL LIGHTING SERVICE:TERRITORY:

Applicable to service within all incorporated limits served by the Company.

RATE:

Service Charge: Per Meter Per Month,.....\$.50

Energy Charge (To be Added to Service Charge):

First	200	K.W.Hrs.	per	Meter	per	Month,..	5.1¢	per	K.W.H.
Next	800	" "	" "	" "	" "	" "	4.0¢	" "	" "
Next	2000	" "	" "	" "	" "	" "	3.0¢	" "	" "
All Over	3000	" "	" "	" "	" "	" "	2.5¢	" "	" "

MINIMUM CHARGE:

The service charge constitutes the minimum charge.

SPECIAL CONDITIONS:

Single phase motors aggregating not more than 3 H.P. may be served at the request of the consumer through the same meter with the lighting service at the above lighting rate and minimum charge.

SAN JOAQUIN LIGHT AND POWER CORPORATIONSCHEDULE D-2DOMESTIC HEATING, COOKING AND COMBINATION SERVICE:

Applicable to domestic combination lighting, heating, cooking and/or water heating service.

TERRITORY:

Applicable to service within all incorporated limits served by the Company.

RATE:

Service Charge: Per Meter per Month,..... \$.50

Energy Charge: (To be Added to Service Charge):

First	30	K.W.H.	per	Meter	per	Month,	...	5.1¢	per	K.W.H.
Next	120	"	"	"	"	"	...	4.0¢	"	"
All Over	150	"	"	"	"	"	...	1.5¢	"	"

Minimum Charge:

First 15 Kw. (or less) of connected load..... \$2.50 per month.
All over 15 Kw. of connected load..... .50 per Kw. per month.

In the first 15 Kw. above, not more than 4 Kw. of connected load other than cooking and water heating equipment will be considered.

SPECIAL CONDITIONS:

(a) This rate applies only where domestic consumer installs and uses cooking, heating and/or water heating appliances other than lamp socket devices of at least 2 Kw. capacity.

(b) Connected load is taken as the name plate rating of all heating and cooking apparatus permanently connected and which may be connected at any time, computed to 1/10 of a Kw. The lighting load, including lamp socket devices such as flatirons, toasters, etc., will not be considered as part of the connected load when determining the minimum charges.

(c) Single phase motors aggregating 5 H.P. or less may be combined under this schedule, in which case each horsepower of

Schedule D-2 (Continued)SPECIAL CONDITIONS: (Cont'd).

connected load shall be considered equivalent to 1 Kw. of connected load when determining the minimum charge.

(d) "Space" Heating appliances shall not be considered actively connected during the months of May to October, inclusive. The minimum charge specified in the rate shall, therefore, be modified accordingly in the bills for the corresponding months.

(e) When applied to apartment houses or groups of apartments receiving service through one (master) meter, this schedule shall take the following form:

Service Charge per apartment per month - \$.50.

Energy Charge:

First	30 K.W.H.	per Apartment	at Lighting Rate.
Next	140 "	"	at 4¢ per K.W.H.
All Excess	"	"	at 1 1/2¢ " "

The service charge and first energy block shall be determined by applying a multiplier thereto equivalent to 75% of the number of apartments concerned. This provision shall be available only to apartment houses or groups of apartments consisting of four or more units, each of which shall be equipped for electric heating, cooking and/or water heating.

Minimum Charge \$2.50 per Apartment per Month.

MIDLAND COUNTIES PUBLIC SERVICE CORPORATIONSCHEDULE L-6GENERAL DOMESTIC AND COMMERCIAL LIGHTING SERVICE:TERRITORY:

Applicable to service within all incorporated limits served by the Company.

RATE:

Service Charge: Per Meter per Month,..... \$.50

Energy Charge: (To be Added to Service Charge):

First	200	K.W.H.	per	Meter	per	Month,	....	5.6¢	per	K.W.H.
Next	800	"	"	"	"	"	....	4.0¢	"	"
	2000	"	"	"	"	"	....	3.0¢	"	"
All Over	3000	"	"	"	"	"	....	2.5¢	"	"

MINIMUM CHARGE:

The service charge constitutes the minimum charge.

SPECIAL CONDITIONS:

Single phase motors aggregating not more than 3 H.P. may be served at the request of the consumer through the same meter with the lighting service at the above lighting rate and minimum charge.