

A. It would be exactly the same way as I described it for the operated leases.

Q. On page 12, you state that all actual material and labor costs of the property in existence in 1938 which had been charged to expense were recorded on the original cost sheets. How did you determine the actual material and labor costs?

A. The actual material and labor costs were ascertained by finding out exactly how much money the Company spent 1219 in constructing these properties. It is the actual cost that the Company spent for constructing these properties, and it was determined from the Company's vouchers and the Company's records.

Q. Were you able to find all of the vouchers required for your actual determination of the materials and labor costs?

A. I was not able to find all of the vouchers, but I was able to find vouchers to the extent of 93 or 94 percent of the original costs of the properties, as I stated before.

Q. And then you estimated the remainder?

A. I estimated the remainder, based on the Hope Company's costs for constructing similar properties under similar circumstances and for like periods.

Q. Of the vouchers you did find, what method did you use to identify any operating expense costs relating to the costs of existing properties?

A. I don't understand your question.

Q. Was it possible for you to tie the existing property up with the old vouchers which were recording these items as operating expenses?

A. I still don't understand it, but what I did in connection with the items that were charged to operating expenses—I went to the Company records——

* * *

1220 The WITNESS. I went to the Company records and the Company vouchers, and determined the actual costs of these items, irrespective of the charge to capital or expense.

The TRIAL EXAMINER. The voucher in each case did not cover the particular expense that you were looking for, did it?

The WITNESS. Yes, sir; each item was identified by a voucher, and my job was to find the particular voucher and identify it.

The TRIAL EXAMINER. The voucher covered only that expense and nothing else?

The WITNESS. Yes, sir. The voucher for each item of equipment and each item of expense.

By Mr. SPRINGER:

Q. Was the voucher sufficiently complete to enable you to identify the unit of property existing today and relate the expense to that unit of property?

A. Yes, sir.

Q. In every case?

A. In most cases. For instance, if I am looking for
1221 the cost of this table [indicating], the table is numbered, and I go to the voucher and look for this number and look for the description of this table, and that is the cost of this table.

The TRIAL EXAMINER. That would be the cost of the table alone, without respect to any labor or hauling or freightage or anything else which expense might have been incurred in connection with that table. Would that same thing apply to freight on the table, for instance, haulage on the table?

The WITNESS. Yes, sir.

The TRIAL EXAMINER. Or labor on the table?

The WITNESS. Yes, sir.

The TRIAL EXAMINER. You would find a separate voucher for each of those items?

The WITNESS. Yes, sir.

By Mr. SPRINGER:

Q. On page 12, Mr. Antonelli, it is true that the direct cost of the materials and labor totalling \$13,580,814.33 which you have added to the book cost of the property were formerly charged to operating expenses?

* * *

1222 The WITNESS. Yes, sir, that is true.

By Mr. SPRINGER:

Q. When was the practice of capitalizing direct costs of material and labor begun by the Hope Company?

A. For certain accounts, the Company capitalized labor from its inception. For gas well construction, of course, they did not capitalize until later on in 1923. For certain of the pipe lines prior to 1907, the labor was not capitalized. The labor for transmission lines and main lines was always capitalized.

Q. What is the basis for your determination that the items formerly charged to operating expenses should be restated as

pital items which you have described as direct material and labor costs not capitalized?

A. Well, this was done in order to obtain the complete original costs. The true original cost.

Q. Under the instructions of the Classification of Accounts the State of West Virginia for 1939?

A. Under the accounting principles of the classification of accounts.

Q. Regardless of the former decisions of management to
23 account for these items?

A. (No answer.)

Q. Haven't you said that you did not care how they accounted for them formerly?

A. Yes, sir.

Q. But you were out to determine the original cost, under your conception of what that means?

A. I was out to determine the true and real original cost of the property.

Q. Pardon me, Mr. Antonelli. Will you please refer to page 24 of your exhibit. I did not mean to interrupt you when you were telling when the Company started to capitalize direct material and labor costs for each of the classifications of the property listed on that page. You have explained some of those; will you continue now?

A. Shall I begin on Account No. 300-1 and go down?

Q. If you will, please.

A. Land was always capitalized by the Company, and the only items that were charged to expense were certain abstracting costs. It will be very hard for me to give you a definite answer for each account, but generally speaking, materials were always capitalized. Labor for compressing station equipment and structures was always capitalized, except, I believe for the years 1918
24 to 1922. That is true for field lines, although certain lines prior to 1907, the labor was not capitalized. Certain the rights-of-way costs such as the cost of obtaining was not capitalized prior to 1920. I think that about covers everything.

Q. Was it the discretion of the management to account for those items in the manner that you have described?

Mr. MILDE. I object to that. How can he testify as to what the management thought back in those times? He was not there twenty or thirty or forty years ago. What do you mean by your question?

The TRIAL EXAMINER. What do you mean by "Within the discretion of the management?"

By Mr. SPRINGER:

Q. Well, some decision had to be made, Mr. Antonelli, did it not, as to whether they should be capital or expense items?

A. I was not interested in that. I said that before, that my job was just to determine the original cost, the real original cost, irrespective of what the company did in the past.

Q. Then your answers would be the same relating to the costs of material and labor and the accounting of the Company as they were for the item of well-construction costs, when I asked
1225 you about intentional and informed accounting, during the history of the Company?

A. Yes, sir.

Q. On page 12, you state that you made an analysis of the costs experienced by the Company in what you term unloading, hauling and warehouse handling costs, and indirect field costs. What period of time did your analysis cover?

A. It covered from the beginning of the existence of the Company up to 1938. It covers the entire period of the Company's existence.

Q. On page 38, don't you talk about dress rehearsals?

A. Yes, sir.

Q. Field performances for unloading, hauling, and warehouse handling, were determined by rehearsals?

A. Yes, sir.

Q. What instructions were given to the men who played the parts in that case?

A. There were no instructions given. I sent one of my men that is familiar with warehousing handling, unloading, and hauling, and he spent several months going from one warehouse to another warehouse, interviewing all of the present employees, the past employees, going through the Company's records, and checking certain information, and also making time studies as to what was done in that time.

Q. What check did you make to determine that the con-
1226 ditions for the dress rehearsals were comparable to those twenty or thirty or forty years ago when the work was actually performed?

A. Well, these so-called dress rehearsals were comparable to those times when the thing was done twenty or thirty years ago,

with the same conditions, as much as possible, naturally, but that was all one part of the study that we made. We took several months in determining this unloading and hauling and warehouse handling.

Q. Mr. Milde said that you were not here twenty or thirty or forty years ago.

A. The records are here, and we have analyzed the records. We have talked to various employees, that were here twenty years ago. We have their names, and we know exactly what they did, and I am very sure that we obtained very accurate information affecting these types of costs.

Q. Will you please refer to page 38 of your exhibit. What were the available costs from the Company's records which you say substantiated your unloading pipe costs used in this exhibit at your dress rehearsal?

A. The pipe bills and payroll records and tally sheets.

Q. And how did they substantiate that?

A. If we found through actual field investigation that it cost, say fifty cents a ton to unload pipe, then we go to the 1227 records and find that it is about the same, and so we find that the men that gave us that information told us the truth.

Q. Will you please refer to page 12 of your exhibit and state whether the actual costs of unloading, hauling and warehousing and handling for property constructed and purchased as non-operating units by the Hope Company, were formerly charged to operating expenses?

A. If I understand your question, we did not include any unloading, hauling and warehouse handling of properties purchased from non-utilities.

Q. As non-operating units?

A. Yes, sir.

Q. Were the actual costs of unloading, hauling and warehouse handling for property constructed by the Hope Company formerly charged to operating expenses?

A. They were formerly charged to operating expenses, yes, sir.

Q. Then on page 32 of your Exhibit, that means that \$383,454.28 has been added to the book costs as an estimate of the unloading, hauling and warehouse handling costs?

A. \$383,454.28, yes.

* * *

1228 Q. And none of that related to properties purchased from non-utilities as non-operating units?

A. May I correct my previous statement, please? This amount was added to our original costs to determine the correct original cost. It was not added to the books; it was added to our original costs. It is part of our original cost.

Q. And what is your original cost?

A. The original cost is \$70,000,000 which we determined for the original costs of the Hope Company properties.

Q. What do you mean when you say that you have added it to your original costs?

A. It is part of the original cost.

1229 The TRIAL EXAMINER. You do not mean you added it to that \$70,000,000, do you?

The WITNESS. No, I do not. It is part of the \$70,000,000.

The TRIAL EXAMINER. What did you add it to to make the \$70,000,000? I think that is what he is trying to find out.

The WITNESS. This \$383,000 was added as the unloading, hauling and warehouse handling of the casing and tubing and the pipe that went into the construction of the field lines.

The TRIAL EXAMINER. That is what it was added for?

The WITNESS. It was added for the costs of unloading and hauling and warehouse handling of the pipe. It was not added to the book cost.

The TRIAL EXAMINER. What was it added to?

The WITNESS. It was added to the material for casing and tubing and pipe lines and field lines.

Mr. MILDE. Material costs.

The WITNESS. Material costs.

By Mr. SPRINGER:

Q. Was it added to the \$49,000,000 amount in column 5, page 32, which is captioned "Per books?"

A. No, sir; it was added to the material costs as determined by us to be the original costs of our casing and tubing and field line pipe.

1230 Q. What was your starting point for the determination of that term original cost?

A. My starting point was to find out the amount of money the Company actually spent for material and labor for unloading and hauling and warehouse handling charges, and the indirect field costs and overhead costs, which gave me the complete cost, the complete original cost of the Company's properties.

Q. How did you do that?

A. I did it, as I have already explained, by analyzing the Company's records and vouchers and so on, and digging in the records which I found.

Q. Well now, Mr. Antonelli, does the original cost statement that you have made have any relation to the book cost?

A. No, sir; the book cost is shown here only to show you what is shown on the books, and of course, to show the adjustments and where we found the costs, how much of it was capitalized and how much was expensed. I wanted to make a job that would be clear to everybody and that would show just exactly where we got the information. And at the same time, to tie it up with the books.

The TRIAL EXAMINER. The purpose of putting the book cost in this exhibit, then, was to relate the book costs to your results?

The WITNESS. Yes. We started with the book cost, and 1231 they made certain adjustments to it, and then we added some other costs which we found.

The TRIAL EXAMINER. Actually you did not do that? You did not start with the book cost, other than to just make a record of the book costs, and then you went ahead and made a separate determination?

The WITNESS. I started it with an inventory. On the first column of the inventory, I showed what was shown on the books for each item separately. Then on the next column I showed the adjustments upwards or downwards, whether I had to increase the book costs or decrease the book costs.

The TRIAL EXAMINER. That was simply to relate your results, as I say, to the book costs?

The WITNESS. Yes, sir.

By Mr. SPRINGER:

Q. You started with book costs?

A. I started with book costs, yes, sir; in most cases.

Q. And is your so-called original cost classification an appraisal of the Hope System properties?

A. Oh, no. This original cost is the cost of the property, the actual cost of this property.

Q. What is your definition of "original cost?"

A. My definition of original cost would be the full cost of constructing the properties involved.

1232 Q. Is that the basis for your original cost figure?

A. No; this definition was modified to agree with the definition given on page 5 of the new Code of Accounts pre-

scribed by the West Virginia Commission, namely, that the original cost as applied to gas utilities, means the cost to the person first devoting it to the public service.

Q. And what are the elements of that cost?

A. I don't understand what you mean.

Q. Does it include labor and material?

A. It includes the full costs. It includes the labor and the material and any other charges and expense which might have been incurred in connection with the construction of the properties.

Q. You have restated, have you not, Mr. Antonelli, in your original cost statement, items which were charged to operating expenses since 1923, for example, that you have now capitalized?

A. Since 1923?

Q. Yes.

A. I cannot answer that question offhand, but I know that I determined the original cost, and if the Company has expensed certain items since 1923, I have not paid any attention to them. I determined the original cost, irrespective of what the Company did.

Q. Well, as a matter of fact, you have capitalized items 1233 which the Company, since 1923, has charged to operating expenses, haven't you?

A. It is possible, but such items would be very small in amount.

Q. Well, it has actually been done, hasn't it? What do you mean by "a small amount?"

A. It might be a small structure expensed by the Company. For instance, a gate-house costing \$50. or \$60.

Q. That is contrary to the instructions of the West Virginia system of accounts, is it not, which says that it was not intended that items formerly charged to operating expenses should be capitalized?

Mr. MILDE. I object to that. It does not say that.

Mr. SPRINGER. On page 48, in Section B.

The WITNESS. As I said before, I determined the complete original costs of the properties, regardless of paragraph B on page 48.

By Mr. SPRINGER:

Q. You ignored that instruction?

A. Yes, because it is inconsistent with what is stated in Paragraph C and inconsistent with the definition of original cost.

Q. Why do you think that it is inconsistent?

A. Because the definition of original cost was interpreted
1234 by me to mean the full original cost for construction of
the property, and also in Paragraph C, page 48, it states
that if the original cost is not available, it could be estimated.

Q. How does that change the specific provision of the items
formerly charged to operating expenses, that they should not be
capitalized?

* * *

Q. Mr. Antonelli, did you not state on page 5 of your exhibit,
that under the new uniform system of accounts of West Virginia,
it was required to state plant accounts on the basis of original
costs of the property?

1235 A. Yes, sir.

Q. And have you made your original cost statement in
conformity with the instructions and prescriptions in that uni-
form system of accounts?

A. I made it in accordance with the accounting principles set
forth in the new Code of Accounts.

Q. What do you mean by the "accounting principles?"

A. Well, I reclassified the properties in accordance with this
new Code of Accounts, and showed the material and labor for
each item of property in connection with this new Code of
Accounts and determined the original costs of the properties.

Q. Were any interpretations required before you could under-
take your work?

A. Required from whom?

Q. Any interpretations of the principles of accounting which
you say you relied upon?

A. Well, I interpreted it to mean that in order to determine
the original cost of the properties, I had to determine the full
costs.

Q. Have you stated in your qualifications that you were an
expert accountant?

A. What do you mean by an accountant?

Q. Are you a Certified Public Accountant?

1236 A. No, sir; I am not.

Q. Have you ever been an auditor?

A. What do you mean by an auditor? I don't understand just
what you mean by an auditor.

Q. Have you an accounting degree, that you have been trained
in the science of accounting?

A. No, sir.

Q. And you did not need any accounting advice to assist you in making your determinations of how to make an original cost study based upon what you call the principles in the West Virginia system of accounts?

A. I had as many as 180 men working on this job. We had engineers and accountants and clerks.

Q. Did you receive accounting advice on the principles or the interpretation of the uniform system of accounts?

A. I did; yes, sir.

Q. From whom?

A. By reading this new Code of Accounts, and from various accountants that worked under me, and also from the Company.

Q. Who in the employ of the Company advised you in the principles of accounting?

A. Various employees. Mr. Cross, Mr. Chisler.

Q. And you accepted their advice, I take it?

A. Yes, sir; I did. May I say that this determination of
1237 original cost is more than an accounting job? Before you prepare the original cost, you have to prepare an inventory and you have to know what is in the inventory, and then the man that works on this original cost must know costs. An accountant knows figures but not costs.

* * *

1253 Q. Did you state earlier in your testimony that the determination of the original cost is an exact science?

A. I said it would be an exact science, if it is possible to find the actual cost on the Company's books and records.

Q. Is that an accounting or an engineering problem?

A. It is both. You have to know the items and you have to know the costs. I personally think it is more of an engineering problem than an accounting problem, and my experience in the
1254 last twenty years has been that original costs prepared under the direction of an engineer are the more accurate original costs, because the engineer knows what he is talking about so far as the physical property is concerned.

The TRIAL EXAMINER. He may not know what the accountant is talking about, as far as the books are concerned?

The WITNESS. I was not interested in the books; I was trying to find out the original cost. Here is a chair, and I was trying to find out how much the chair cost. It is a detective job, really, to go to the books and find out the cost of the chair and identify it, and so that I can prove to somebody that the cost of this chair

is \$10. That is what we did. I was not interested at all in the way that the Company kept their books or what their practices were.

By Mr. SPRINGER:

Q. Please turn to page 12 of your exhibit. How did you determine the indirect field costs in your study?

A. The method followed is described.

Q. Is that on page 39?

A. It is on page 39, I believe.

Q. And on page 39, you say that present and former superintendents were interviewed, in order to learn actual account of the average time spent in the previous field construction. Did those superintendents have written records of their time spent on construction, or did they rely on their memories for 1255 this thirty or forty year old information?

A. They relied on their memories. If they had written records, of course, I was going to use them, but there were no such written records.

Q. And you relied solely on their memory of conditions forty years ago?

A. Well, those men, doing the same work year after year, they know very well how much time they spent in connection with the construction of pipe lines or drilling wells, and so forth. It is a very easy matter for them to give me a correct picture of the time spent in constructing properties.

Q. The men you interviewed have not been employed in that task for forty years, have they?

A. No, sir; I interviewed all of the men from the beginning up to 1938, all of the men that were available and still living.

Q. Of the men available, were there any who had supervised field construction forty years ago?

A. No; but many supervised field construction for a long time, and those men are men that grew up in the business, and they know how much time is necessary for supervision, even before they began supervising.

Q. And did you make a check of your determination to see whether it was in compliance with the cost of supervising field construction twenty to forty years ago, when it was 1256 actually performed?

A. Well, the costs that were determined as applicable to those dates, are not applicable to the supervision of today. These costs vary year by year, and it was so determined.

Q. Now, did you determine in 1938 what the cost of supervising field construction was in 1915?

A. We determined the salaries and expenses of the men that supervised the work in 1915. There was no trouble about that. We had that directly.

Q. You mean that field supervision and construction—

A. (Interrupting.) Yes, sir; name by name. I have the names of the men who supervised the work in 1915, down to the time-keeper, and I also knew and determined from the men that really did the work in 1915, how much time they spent in supervision. There was no trouble at all to determine the cost.

Q. Do you remember that man's name?

A. Oh, yes; I have several—not one man's, but I have several men's names. It may be twenty or thirty or it may be as many as fifty. We spent months doing this work. We visited every district and interviewed every man and reviewed all of the pay-roll vouchers and pay-roll books.

Q. And were the actual indirect field costs for the properties constructed or purchased from nonutilities or from other
1257 utilities, which not operating units of the system, formerly charged to operating expenses?

A. I don't understand your question.

Mr. SPRINGER. I will ask the reporter to repeat the question. (The question is repeated.)

The WITNESS. The original cost did not include indirect field costs for such properties.

By Mr. SPRINGER:

Q. Does the indirect field costs which were actually incurred for the property constructed by the Hope Company, were they formerly charged to operating expenses?

A. Yes, sir; they were.

Q. Do you mean, Mr. Antonelli, that the only addition in your original cost statement of indirect field costs was made to property constructed by the Hope Company?

A. We also added indirect field costs to properties constructed by other utilities.

Q. You mean that it covered the properties purchased by the Hope Company from other utilities as an operating unit?

A. Yes, sir.

* * *

1258 Q. Mr. Antonelli, you stated that the Hope Company in the past has charged indirect field costs to operating expenses?

A. Yes, I did.

Q. And I assumed that that was intentional accounting on the part of the company?

A. I don't know what was the company's intention.

Q. Well, it was a fact, was it not, that you found that they had practiced the expensing of indirect field costs?

A. They were charged to operating expenses.

Q. And could you tell us for what period they were charged to operating expenses?

A. No, I could not. But I would like to make a statement that we are referring now to just certain accounts, and not
1259 all of the accounts. We are referring to gas wells and field lines. For the other accounts, the Company has charged indirect field costs direct to the properties.

Q. Do you know whether that was done since 1922?

A. I would say offhand; no, sir.

Q. You have added to your book costs an estimate of overhead costs totalling \$2,866,414.26 for property constructed or purchased from nonutilities or as nonoperating units, haven't you?

A. I have not added anything to the book costs. I determined the original costs, and this amount represents the overhead.

Q. On page 13 you state that to determine the original cost of the company's properties in accordance with the accounting principles set out in the West Virginia system of accounts, it was necessary to determine the overhead costs in connection with construction and acquisition of properties. Now, referring to the West Virginia system of accounts, page 55, plant construction, No. 6, will you please read that into the record?

A. You mean as to overhead construction costs?

Q. Yes.

The TRIAL EXAMINER. That is already an exhibit. Why read it into the record again?

1260 Mr. SPRINGER. I want to refer to the language.

By Mr. SPRINGER:

Q. Does not paragraph B of that instruction on overhead construction costs forbid the addition to utility plant accounts such as you estimated for overhead?

A. First of all, my overheads are not estimated overheads; they are actual overheads, and not estimated. The only estimate that we had to make was the allocation between operation and new construction work.

Q. How did you determine the actual overhead costs?

A. We determined them from an analysis of the Company's books. Somebody had to supervise and plan the new construction work, and it was based on the Company records.

Q. Do you mean that the Company records are sufficiently specific to permit a segregation retroactively of overhead construction costs?

A. It was segregated by us on an equal dollar basis between operation and new construction work.

Q. Well, that is an estimate, is it not?

A. No; that is an allocation, and it is a very reasonable and fair allocation. As a matter of fact, I think the supervisory forces of the Company spent more time in connection with new construction work than they do with regular operation, which is just routine work.

1261 Q. What is the difference between an allocation and an estimate?

A. An allocation is when you know the total cost and you allocate it between certain things, while an estimate is where you actually have to estimate it.

Q. Could you make an allocation without making an estimate?

A. Yes.

Q. How?

A. If the Company spends \$6,000,000 for operation and \$4,000,000 for construction, the overheads would be 60 percent operation and 40 percent construction. That is just an example. It is very easy. It is all done on an equal dollar basis.

Q. Are you responsible for all of the statements made in connection with your study of overhead construction costs?

A. No, sir; I had discussions with the management of the Company and with the company lawyers.

Q. What instructions or advice did they give you?

A. I don't recall the specific instructions, but we decided that this was the only method by which we could determine the fair overheads applicable to the Hope Company properties.

* * *

1262 Q. Now, Mr. Antonelli, on page 13, on the subject of overhead costs, referring to group four, general overhead,

consisting of general administrative, legal, accounting and engineering service, and in detail on page 44, you state that some engineering expenditures were included by the Company in the investments, and that you did not use those expenditures in determining these overheads. Are those engineering expenditures still included in investments?

A. Yes, they are.

Q. In addition to your claim for engineering service overheads?

A. Well, there is no duplication between the engineering that has been charged to investment and engineering that has been expensed, but charged to operation. If it is charged to investment, it is still in investment and it has not been taken into consideration in determining the overheads.

Q. How could you determine there was no duplication?

A. Well, because the Company does not make a practice to charge the time of a supervisor in two places. They charge it to expense or charge it to investments. We have checked it and we know.

1263 Q. You have checked every entry?

A. Absolutely.

Q. Then this could not occur, you say, that if engineering and supervision were in the past capitalized and shown in the investment, that you have in your overhead cost statement added something for the same engineering and supervision?

A. No, sir.

Q. And you have checked every entry, to be sure?

A. Absolutely.

Q. In the past, the Company has made an allocation of the engineering expenses between capital and operating expenses, isn't that so?

A. In the past, the company has charged for certain jobs a portion of the time of certain of the men that supervised the construction of the new work; yes, sir.

Q. And that went into investment?

A. That went into investment; yes, sir.

Q. Now, you have come along in your original cost statement and taken the portion of engineering overhead that went to the expense and reallocated some portion of that on top of the investment, which includes the former engineering service?

A. That is not the same engineering. There is no duplication, as I said. Yes, we did, because engineering as was

1264 shown in the investment was not the complete engineering, and that these overheads include more than that engineering. In our engineering is included the administrative costs and the legal costs and the accountants' costs, and those costs are always charged to operating expenses.

Q. My question was confined to engineering supervision.

A. But our general overheads include more than engineering. It includes administrative, legal, accounting and engineering services.

Q. What examination did you make of the time distribution of the engineering department on the basis of which certain costs were allocated to investment by the company?

A. In that case the investigation was done during the examination of the vouchers, to determine the true cost of the operating units that we are trying to get the original cost for.

Mr. SPRINGER. May I have my question repeated?

(The question is repeated.)

The WITNESS. There was no time distribution. If any engineering charges were charged to investment, they were charged directly through vouchers. We did not have to find the time distribution. As a matter of fact there was no time distribution.

1265 By Mr. SPRINGER:

Q. What was the basis of your information for the allocation?

A. The allocation was based on a dollar basis between operating expenses and gross addition to investments.

Q. That was not the basis which the Company used when it originally accounted for engineering?

A. No. Any time that the Company charged engineering to investment, they would charge it directly.

Q. Were you able to determine what engineering services reflected the amounts directly chargeable to operating expenses?

A. No, sir.

Q. How would you be able to reallocate retroactively then the engineering services?

A. I did not allocate just the engineering services; I allocated the general overheads, and the general overheads includes the engineering services.

Q. On pages 43 and 44 of your exhibit, you mention the overheads. Was any portion of the administrative, legal or account-

ing department expenses identified as items 1, 2 and 3, ever allocated to investment by the Company?

A. As far as I know, those charges were never allocated to investment.

Q. On page 44, under the accounting department 1266 functions, you list the preparation of financial statements.

Do you think that the cost of preparing financial statements should be allocated to construction costs?

A. Well, that is only one function of the accounting department, and naturally if the Company lays a line, they will have to make a statement of the conditions. Surely. Why not?

Q. Your answer is "Yes"?

A. Yes, sir.

Q. Do you think that keeping the cash book, showing the receipts and disbursements of the Company funds, and the general ledgers and books, should be allocated to construction account?

A. These are all various functions that the accounting department does, and among those functions are the functions that pertain to the construction of new lines, to keep track of the books, preparing inventories, taking care of the payrolls, and so forth.

Q. Is your answer, Yes?

A. Yes, sir.

Q. Can you quote an accounting authority which would support your conclusion that keeping a cash book and preparing financial statements should be allocated to construction costs?

* * *

1267 The WITNESS. This represents all of the functions of the accounting department, and naturally, we allocate only a certain portion of it to the construction work, but proper estimates for the cash requirements might as well be a part of the new construction work.

By Mr. SPRINGER:

Q. Do you have an accounting authority which would support your statement that preparing financial statements, in part, should be allocated to construction costs?

A. All of this allocation was made after discussion with the management and the accountants of the Company.

Q. Do you mean Mr. Chisler?

A. Yes, sir.

Q. Do you state definitely that none of the costs of the functions listed under legal, administrative, engineering and
1268 accounting, on pages 43 and 44 were incurred in connection with gas purchased for resale?

A. Gas purchased for resale does not involve any considerable supervisory expense.

Mr. SPRINGER. Will you repeat my question, please?

(The question is repeated.)

The WITNESS. Not to the extent of the amount of the gas purchased for resale, no, sir.

Mr. SPRINGER. I do not believe that answers the question. Will you repeat it again?

(The question is repeated.)

The TRIAL EXAMINER. Now, read the answer.

(The answer is repeated.)

The TRIAL EXAMINER. It is not very clear to me.

Mr. COCKLEY. You mean No, don't you? Is not that the effect of it?

Mr. MILDE. Do you understand the question, Mr. Antonelli?

The WITNESS. Yes, I do. Maybe the incidental costs in connection with the purchase of gas has been included, but to include the amount paid for gas purchased would greatly distort the overhead percentage.

By Mr. SPRINGER:

Q. How do you know that?

A. It is self-evident.

1269 Q. Will you explain that to me?

A. Because the gas purchased for resale is a very large amount of money, and the Company would make a contract and that contract would be in effect year after year and certainly it would distort the picture if we added this gas purchased for resale year after year in order to determine the overheads. The overheads would be out of line.

The TRIAL EXAMINER. Your question was whether these overheads had been added to the gas purchased, was it not?

Mr. MILDE. In replying to the Examiner, let me ask if you did not add overheads to the gas purchased? Did you?

The WITNESS. No; we did not.

The TRIAL EXAMINER. That is the way I understood the original question. The question was whether or not any of these items had been included in gas purchased.

The WITNESS. The gas purchased was eliminated from the operating expenses when the overheads were determined.

By Mr. SPRINGER:

Q. Do you know how much of the costs of the functions of the administrative, legal, accounting and engineering departments are related to gas purchased for resale?

A. Not offhand; no, sir.

Q. You mentioned the contracts and the functions of the legal department relating to gas purchases for resale, and you
1270 exclude in your computations the gas purchased for resale?

A. Yes, I do.

Q. Are you able to state definitely that none of the costs of the functions listed under the administrative and accounting departments are incurred in connection with your second exclusion, gas used for compressor station operation, on page 44?

A. Yes, sir.

* * *

Q. Can you state that none of the costs of the functions you have listed under administrative and accounting departments, are incurred in connection with your third exclusion, depreciation and amortization items and taxes, other than payroll taxes?

A. Item Number 3 has been excluded because depreciation and amortization do not involve actual expenditures. Taxes do not involve supervision in proportion to the amount of the tax paid.

Q. Your answer would be "No," to my question, would it not?

A. That is right.

Q. Can you state that none of the costs of the administrative, accounting and engineering departments, are incurred in
1271 connection with your fifth exclusion, which is three-quarters of the cost of large purchases of property in place?

A. That is approximately right; yes, sir.

Q. You mean the answer is, No?

A. The answer is, No.

* * *

1325 Q. Now, will you please refer to page 13 of your Exhibit 20. Were the actual administrative and general expenses formerly charged to operating expenses by the Hope Company?

A. Yes, Sir; they were.

Q. Did the Hope Company ever maintain any records by which it could equitably allocate administrative and general expenses to specific construction projects?

A. No, sir.

Q. Have representations ever been made for the Hope Company in a rate proceeding where its administrative and general expenses reflected on the books had been reduced to exclude amounts now claimed to be allocable to construction costs?

A. May I have that question repeated?

1326 (The question is repeated)

The WITNESS. I personally don't know of any.

* * *

By Mr. SPRINGER:

Q. In your exhibit on original cost, you have restated approximating a net of \$17,000,000, which were formerly charged to operating expenses, from 1900 to 1939, isn't that so, Mr. Antonelli?

A. That is correct.

Q. Mr. Antonelli, referring to page 13 of your exhibit, how did you determine that interest during construction should be 6 per cent?

A. We had to have a reasonable interest rate which could be used over a long period of years, and after consideration, we decided to use the West Virginia legal rate for interest for all items in the original cost exceeding \$5,000. in cost and requiring more than thirty days to construct.

Q. When you say "we decided" would you name the persons in the conference?

A. The decision was made by the management of the Company, Mr. Chisler and Mr. Tonkin, I believe—I am not quite sure if he was present—and the counsel for the Hope Company—

* * *

The WITNESS. A more appropriate interest during construction would have been the fair rate of return applicable to the properties throughout the history of the Company. However, it would have been very difficult to determine such a rate year after year, and that was one of the reasons that we finally
1328 adopted the 6 per cent legal rate, which we think is a reasonable rate.

By Mr. SPRINGER:

Q. Has the Hope Natural Gas Company ever paid 6 per cent on borrowed money?

A. They have loaned money out at 6 per cent.

* * *

Q. Do you know whether the Hope Company has ever borrowed any money for construction purposes?

A. I don't know offhand, no, sir; but I made an investigation and I found out that the Company has loaned money at 1329 6 per cent.

Q. What has been the Company's experience in borrowing money? Has it ever paid 6 per cent for borrowed money for construction purposes?

Mr. COCKLEY. I still object to the question.

The TRIAL EXAMINER. The objection is overruled.

Mr. COCKLEY. Exception.

The WITNESS. I must repeat my answer that I don't know.

By Mr. SPRINGER:

Q. You don't know?

A. No, sir.

Q. You made no investigation of the cost of money to the Hope Company?

A. No, sir; I did not.

Q. Please refer to page 31 of your exhibit. Apparently overheads for compressor station equipment have been duplicated in that statement. Would you explain that?

A. What overheads?

Q. Engineering and superintendence, for example?

A. No, they have not been duplicated.

Q. Does not the book cost already include overheads for engineering and superintendence?

A. It includes a small amount of engineering and superintendence. They call it engineering and superintendence, 1330 but usually it means surveyors or engineers making locations and expenses for some of the general officers.

Q. And the engineering and superintendence in your overheads which has been added includes those same services, does it not?

A. It is no duplication at all.

Q. Why?

A. There is an additional general overhead which is administrative, accounting, engineering, and legal.

Q. How do you know that it is not a duplication?

A. I know because I investigated it. I had pages to show, station by station, who did the station and how it was built and what was included and what was excluded. As a matter of fact, I did not include all of the costs. I have a statement that will show even by names, the men that have been excluded. We have pro-rated all overheads on an equal dollar basis. It was taken as to each item of equipment and there was no duplication whatsoever in the overheads.

Q. Now, referring to page 31 again, you have a classification of property there, property purchased from non-utilities or other utilities, where not an operating unit or system. Who determined what purchased property was to go into this classification?

A. A list was prepared of all of the companies from 1331 which we purchased properties, and that list was turned over to the legal department of the Hope Natural Gas Company, and the legal department spent a considerable time in going over the annual reports filed with the West Virginia Public Service Commission, and also by writing to the various companies.

Q. And you relied on that determination for your classification?

A. Yes, sir.

* * *

Q. Do you know what the basis of the classification was, or did you just take the legal department's determination?

A. Most of it is self-evident. The companies are such, when they are serving the public, and when there were a few doubtful, and it was gone through very carefully, and we carried 1332 on correspondence for several months before we finally decided whether or not the Company was a utility.

Q. Will you state the amount of property purchased from non-utilities or from other utilities, where not an operating unit or system, as reflected in your exhibit, and which represents what percentage of the total of such property, plus the property constructed by the Hope Company?

A. I have an approximate figure which shows the properties acquired from non-utility companies. It is only an approximate figure. It amounts to approximately \$4,800,000 which is less than 7 per cent of the total original cost.

Q. It would be a greater percentage, would it not, of the total of the property plus property constructed by the Hope Company?

A. This \$4,800,000, the 7 per cent represents the percentage of the total property—of the \$70,000,000.

Q. Yes; but the percentage of \$64,917,000 of property purchased from non-utilities, or from other utilities where not an operating unit or system, plus the property constructed by the Hope Company, would be greater, would it not?

A. Yes, sir.

Q. Do you have that percentage?

A. No, I have not. It would be about 7½ per cent.

* * *

1334 Q. Do you know the amount of property that was purchased by the Hope Company from associated companies?

A. No, sir; but it is in my papers, in my working papers.

Q. Could you furnish that?

A. That would be a very big job, because we have our properties set up by units of property, and it would necessitate going over all of the working papers.

Q. Do you remember whether there was much property purchased from associated companies by the Hope Company?

A. They purchased properties from the Clarksburg Light & Heat Company, the Mountain State Company, the Flaggy Meadow Company, some perhaps from the Reserve Gas Company, the Hope Construction and Refining Company, the South Penn Oil Company—those are the major companies, I think.

Q. Those are associated companies, from which the Hope Company has purchased property?

A. Yes, sir.

Q. Do you know the dollar amount?

A. Not offhand; no, sir. How much the company paid for the properties, or the original cost?

1335 Q. Stated in original cost.

A. No; it is all intermingled in our work sheets, with other properties, and it will be a big job to get it.

Q. It might be \$9,000,000 might it not?

A. The total purchased properties from utilities and nonutilities amounted to \$9,000,000 but I know that the Company has purchased properties from other companies which are not affiliated or related to the Hope Company, so it could not be \$9,000,000; it must be less.

Q. Do your working papers show the original cost to the former companies of the properties purchased by the Hope Company?

A. It shows the properties as they existed on December 31, 1938—the remaining properties as of December 31, 1938.

Q. Mr. Antonelli, is the amount of properties purchased by the Hope Company from associated companies readily ascertainable from your working papers?

A. I don't know what you mean by "readily ascertainable."

Q. Is it set out? Is it segregated or is it intermingled?

A. The development of the cost is segregated, but in a summary in the final work sheets it is intermingled, because, for instance, the Company might buy a well from the Reserve Gas Company and drill it deeper, and therefore, half of the well is Hope 1336 Company and drilled by the Hope Company, and the other half was purchased from the Reserve Gas Company, so in order to give you a statement of the amount, as you would like to have it, it would be necessary for me to go to the working papers.

Q. Did you not first make an analysis of purchases by the Hope Company?

A. Yes, sir; I did.

Q. Then you must have a list of purchases by companies and the amounts, and then the associated companies could be selected from that list?

A. But this is not an easy job. We have been working here now for a long time and we have 78,000 sheets, you know. We tried to do a job which could be substantiated, and it is not just sitting down and taking figures and going to this book and getting the cost of a prior company and then going to another book; it is not done that way. We had to investigate it and investigate the vouchers, and investigate the records, and we had to make certain adjustments, and we had to apply costs that were not shown on the books, so I could not just go there and give you a figure in five minutes or a half a day. It will take time. We have all the information—we have everything.

Q. That information is available?

A. Yes, sir; it is available.

1337 Q. But it would require a compilation of material?

A. The property purchased from affiliates and still in existence—information of that kind is available, yes, sir.

Q. You said that you made an analysis of the property purchased by the Hope Company?

A. Yes, I did; a very detailed analysis.

Q. And that would show the total property purchased by the Hope Company from associated companies, would it not?

A. As they existed on December 31, 1938.

Q. Can you furnish that information?

A. It will require a little time. Of course, I will have to ask my counsel.

Mr. MILDE. I don't understand what Mr. Springer wants.

Mr. SPRINGER. It is pretty obvious that when the Hope Company buys property from an associated company, it is important to investigate the price paid and the original cost to the company first dedicating it to the public service, in order to determine whether or not there is an inter-company profit.

* * *

1338 Q. In estimating the general and administrative expenses allocable to cost of this type of purchased property, did you distinguish between properties purchased from associated companies and from nonassociated companies?

A. Are you referring to properties purchased from utilities or from nonutilities?

Q. From nonutilities.

A. On properties purchased from nonutilities, the overheads that we added was equivalent to one-quarter of the general overheads which we applied to the property purchased from utilities, and that one-quarter of the general overhead was the same for the property purchased from affiliated companies or property—

no; it could not be—yes; it is possible. Excuse me. From
1339 affiliated companies, or nonaffiliated companies, or non-utility.

Q. How did you determine that it should be one-quarter for overheads estimated to be allocable to property constructed by the Hope Company?

A. I discussed this matter with the management of the Company, and with counsel, and they all came to an agreement that the time of the Company's supervisory forces which was spent in negotiating and purchasing such properties, was about a quarter of the time that they spent in constructing new properties, and it was decided to use a quarter of the general overhead.

Q. Were any studies made upon which the one-quarter determination was based, or did you just get a statement?

A. In connection with another company, I had occasion to make a study of this type, and from our engineering experience with such properties, we think, and I think myself, that one-quarter is a fair figure—that one-quarter of the general overhead is a fair figure for properties purchased from nonutilities.

Q. What other company were you speaking about?

A. With a company that was purchased from—I don't know offhand; I will have to refer to the working papers.

Q. You will look that up?

A. Yes.

1340 Q. When you spoke of the management and counsel, could you name the persons who advised you to use the one-quarter estimate?

A. Mr. Chisler and Mr. Tonkin and counsel for the Company.

Q. Now, referring to property purchased by Hope from utilities, as an operating unit or system on page 32, totalling \$3,218,399.28 in column 12, captioned, "Cost Capitalized per Hope books," what does that represent?

A. That represents what the Hope Company paid for these properties, exclusive of any additional charges that might have been incurred. That is the actual price that they paid.

Q. That is the cost to the Hope Company at the date of their acquisition?

A. For the properties still in existence at December 31, 1938.

Q. What disposition was made of the costs subsequently retired?

A. I could not answer that question.

Q. You know how much the Hope Company paid for the property but you don't know how much has been retired since it was acquired?

A. No; because I was not interested in how much property had been retired. I worked from the inventory as of
1341 December 31, 1938, the total properties existing as of that date.

Q. Do you know what the cost capitalized per the predecessor company books was in relation to the \$3,000,000 figure of cost capitalized per the Hope Company books?

A. We might have some of those figures on our working papers, but I am sure that we do not have it for all of the companies.

Q. Do you know what the original cost of the property was when it was first devoted to public use by the predecessor company?

A. No, sir; I was not interested to know.

Mr. COCKLEY. Are you speaking now of nonutility companies?

Mr. SPRINGER. No; we are speaking of property purchased by

the Hope Company from other utilities, as an operating unit or system.

Mr. MILDE. What was your question?

By Mr. SPRINGER:

Q. Do you know what was the original cost of the property to the predecessor company first devoting it to the public use?

A. No, sir; although there might be some papers in my files which will give you some information, but I am certain that the information is not complete.

The TRIAL EXAMINER. You said that you were not interested in that question?

The WITNESS. No; because I was interested in the properties existing December 31, 1938, and I did determine the original cost of properties which are still in existence but not the properties that were retired or withdrawn.

Mr. COCKLEY: I do not think the witness and the Examiner are talking about the same thing, but maybe I am the one that is confused.

By Mr. SPRINGER:

Q. Referring to page 32, Mr. Antonelli, under the caption "Property purchased by Hope from other utilities as an operating unit or system," you show in column 12 the figure of \$3,218,399 cost capitalized per the Hope Company books?

A. That is right.

Q. Did you determine the original cost of that property to the predecessor company first devoting it to public use?

A. Certainly; yes, sir.

Q. You did?

A. Yes, sir.

Q. And where is the difference between the original cost and the amount that Hope paid for that property?

A. That would be shown in the details of our working papers.

Q. Under the new Uniform System of Accounts for West Virginia gas utilities, that would appear in the acquisition adjustment account, would it not?

A. This is not an accounting job. I was just determining the original cost of these properties.

Q. Of course, you constantly refer to the West Virginia Public Service Commission Uniform System of Accounts in your exhibit. You say you have adopted the accounting principles?

A. Yes, sir.

Q. And you have used their classifications of property. Did you just take what you desired from the system and ignore the rest?

A. No. This original cost has been set up on the same basis as if this uniform system of accounts had been in effect throughout the history of the Company.

Q. Does your exhibit contain the amount which you say you determined to be the original cost of the property to the predecessor company first devoting it to public use?

A. Yes, sir; if you will refer to the property purchased by the Hope Company from other utilities and operating systems or units; yes, sir.

Q. Well, is that in your exhibit?

A. That is in various items of equipment purchased. You will find it in the well accounts, building of pipe lines, and it is all set up, and we will estimate what the company
1344 paid and what was original cost.

Q. Don't you have a tabulation that will show in one column the original cost of the property to the company first devoting it to public use, and in the next column the amount of money paid by the Hope Company for that property, and another column showing the difference?

A. No, sir. We had a job to prepare this original cost, and we had a big job and we could not stop and make different kinds of exhibits, exhibits that I did not think were necessary at the time.

* * *

1346 The WITNESS. Column 12 gives you the cost capitalized on the Hope Company's books, and that shows what the Company actually paid for these properties.

The TRIAL EXAMINER. But it does not show what the company originally devoting it to public use paid for it, does it?

The WITNESS. Column 11 will give you that for—

Mr. MILDE. (Interrupting). Column 17.

The WITNESS. Column 17 will give you that.

The TRIAL EXAMINER. Column 17 represents the total of columns 12, 13, 14, 15, and 16.

The WITNESS. That is the original cost to the prior companies.

* * *

1348 Q. On page 32, Mr. Antonelli, with respect to direct material and labor costs, to other utilities, which were purchased as operating units in the amount of \$4,639,000 how did you secure that information?

A. The information came from records pertaining to the prior companies, and in some cases where the records were not available, direct material and labor costs were estimated.

Q. Do you know how much of the amount was charged to operating expenses on the books of the predecessor company?

1349 A. In most of the cases, the companies were affiliated or associated with the Hope Company and were under the same management, and the books were kept about the same as the Hope Company's, and I had an idea—I knew that the affiliated companies kept their books as the Hope Company did.

Q. How much of the amount did you have to estimate?

A. I could not tell you offhand.

Q. Pardon me?

A. I could not tell you offhand. I don't know.

Q. Was it a large amount?

A. I don't think so; no.

Q. I believe you have stated that the direct material and labor costs were charged to operating expenses by the predecessor companies?

A. Direct material and labor costs? No; I did not.

Q. Didn't you say the practices were the same as the Hope system?

A. Yes sir. The books were kept exactly as the Hope keeps their own books.

Q. How did you determine the actual material and labor cost for other utilities?

A. By analyzing the vouchers, as in the case of the Clarksburg Heating and Light Company. In the case of the Mountain
1350 State, I think we had quite many records. We had some records in connection with the Flagg Meadow Company.

Q. On page 16, you state that where the original costs could not be ascertained from the predecessor company's books, that Hope Company's experience was used as the basis. Did you make an appraisal for that purpose?

A. An appraisal? No, we did not make any appraisals at all. We determined the original cost.

Q. If you had to use the Hope Company's experience you had to determine comparability, didn't you?

A. Certainly. For instance, the Clarksburg Light & Heat Company has a well in the Bridgeport District and the Hope Company has a well in the Bridgeport District, and if we have

the cost of drilling a well, say in 1916, for that district, certainly that would be a fair price to use for pricing the Clarksburg Light & Heat Company's well. It is not an estimate or making a unit cost, but it is basing it on the best available information that we could get.

Q. On page 34, under column 14, unloading, hauling and warehouse handling cost on property purchased by the Hope Company as operating units, totalling \$18,556, were they formerly charged to operating expenses?

A. I don't know. These overheads were based on the Hope Company's experience. It does not amount to very much in dollars.

1351 Q. You did not make an examination of the predecessor company's books to determine that cost?

A. No; it would have involved a great deal of work and it was not worth it. I don't believe we would have been able to get all of the costs.

Q. You don't know whether they were expensed or capitalized?

A. No, sir.

Q. On page 32, referring to——

A. (Interrupting.) I would like to correct that statement. I know they were not capitalized and they were not included under direct material and labor costs. I know that much.

Q. Under indirect field costs, column 15 of page 32 of property purchased by the Hope Company from other utilities, as operating units totalling \$38,919 were those costs determined from the records of predecessor companies?

A. No, sir; they were based on the Hope Company's experience.

Q. That was the basis of the memory of the men who were field superintendents?

A. Yes, sir.

Q. Were actual indirect field costs of property purchased by the Hope Company as operating units, charged to operating expenses by the predecessor companies?

A. I don't understand your question.

1352 Mr. SPRINGER. I will ask the reporter to repeat the question.

(The question is repeated.)

The WITNESS. It all depends on the kind of properties involved. In some cases, some kinds of properties, the predecessor, judging from the method that the Hope Company kept their books, the

indirect field costs were charged direct to investment. In other cases, such as gas well equipment and field lines, my judgment on what I saw on the Company's books was that they were charged to operating expenses.

Q. Were any of those indirect field costs capitalized by the predecessor company?

A. As I said, for certain of the accounts, yes, sir.

Q. Do you know how much?

A. No, sir; that was reflected in the costs which we obtained from the predecessor company, but I don't know how much.

Q. Now, referring to the overhead costs, column 16, page 32, totalling \$122,042, how do you know that the overhead percentages for the Hope Company constructed properties apply to the purchased properties?

A. That was based on my experience in the last twenty years. The Hope Company overheads were very reasonable, and
1353 I considered that it would be applicable to properties that were purchased from other utilities, as part of a unit or system.

Q. Were the actual overhead costs for property purchased by Hope as operating units, charged to operating expenses by the predecessor companies?

A. Yes, sir; as far as I can determine from the company's predecessor books.

Q. Throughout your examination, you have stated that you consulted Mr. Chisler or received instructions from him in the preparation of your exhibit.

* * *

The WITNESS. Yes; I consulted Mr. Chisler and consulted some of the other men of the Hope Company management, and I consulted the counsel of the Company.

* * *

5068 Cross-examination by Mr. SLAFF:

Q. Did you follow a Code of Accounts in the preparation of your original cost determination in this case?

A. Yes, sir; I did, as much as possible.

Q. What Code of Accounts?

A. I followed the West Virginia new Code of Accounts as prescribed in 1939.

Q. And the Federal Power Commission System of Accounts?

A. That is practically the same, those two.

Q. Now under those Codes of Accounts or Systems of Accounts similar to those two, what original cost determinations have you made other than the Hope determination?

A. Peoples Natural Gas Company.

Q. And those are the only two that you have made under
5069 those types of systems of accounts?

A. That is right.

Q. And you say with respect to the Peoples determination, Mr. Radcliffe, the Treasurer of the Company, was in charge of that, in general charge?

A. Yes; he was the man that decided on certain policies that we had to follow.

Q. Tell me this, Mr. Antonelli: Do you consider a coat of paint a property?

A. A coat of paint?

Q. Yes.

A. Why, certainly, if the house was painted when the building was first built, sure, why not?

Q. I am not asking you, Mr. Antonelli, to ask me why not. You do, then, consider a coat of paint a property of the Hope Natural Gas Company?

A. Yes, because I wanted to determine the complete original costs of the property. We went out in the field and found this building —

* * *

5070 Q. (Interposing.) What building? Have I inquired about any building, Mr. Antonelli?

A. You said coat of paint as part of some other item.

Q. I am asking you whether you consider a coat of paint, just that, a property of the Hope Natural Gas Company. Now will you tell me whether you do or do not consider that a property?

A. I couldn't answer that question.

Q. You can't?

A. No, sir.

Q. Why didn't you say so in the first place?

A. All right.

Q. You cannot answer, then?

Mr. MILDE. He has already answered.

Mr. SLAFF. Now he has changed his answer.

By Mr. SLAFF:

Q. You cannot answer as to whether or not you consider a coat of paint a property of the Hope Natural Gas Company, is
5071 that correct?

A. If it is part of some other item, yes; it is a property, and I tried to explain why.

* * *

5072 By Mr. SLAFF:

Q. Now, Mr. Antonelli, let's see if we can start over again in the light of the instructions—and the only binding ones are those of the Examiner.

In the light of those, can you now tell me whether you consider a coat of paint a property of the Hope Natural Gas Company?

A. I could not answer this question without qualification.

Q. And do you consider freight costs a property of the Hope Natural Gas Company?

A. Absolutely; yes.

Q. Now with respect to our coat of paint, or your coat of paint, you said you couldn't answer whether you considered that a property of the Hope Natural Gas Company without a
5073 qualification, is that right?

A. Yes, sir.

Q. Do you want to answer that with a qualification now?

A. Yes, sir; I do.

Q. Will you go ahead and do that?

A. All right. When we made the inventories of the Hope properties, we found that certain buildings were painted. Then by going to the Company records we found the cost of the buildings and found the material and the labor, but the voucher disclosed that the cost of painting was not included in this particular voucher for the particular building that I have reference to. Therefore, we added to the cost of the building the cost of the paint, and in that case we considered the painting as a cost of the property just as much as the lumber or anything else that went into that particular building.

Q. No, I didn't ask you whether you considered the cost of the painting as a cost of the property, that was not the question, Mr. Antonelli. The question was whether you considered the coat of paint a property of the Hope Natural Gas Company?

A. Yes, sir, with the qualification that I made.

Q. You do?

A. Yes.

Q. Now will you turn to page 72, say, of your exhibit
5074 that has been marked No. 60.

Now with respect to the office and warehouse, No. 9001, is it a fact that no costs were included in the Federal Power Commission original cost exhibit for that warehouse and office?

A. No, sir; that is not the fact.

Q. For that warehouse and office, costs were included in the Federal Power Commission original cost exhibit, is that not so?

A. Well, certain costs were included, but not all of the costs were included.

Q. Well, it is not an accurate statement to say, is it, that no costs were included in the Federal Power Commission original cost exhibit for office and warehouse, No. 9001?

A. No, but that is qualified by saying—

Q. (Interposing). Just a minute—

Mr. MILDE. (Interposing.) Let him finish his answer.

Mr. SLAFF. We will get his qualifications. Let's take it step by step.

By Mr. SLAFF:

Q. That statement, as I gave it to you, is not an accurate statement, then; that is to say—let me repeat it again.

TRIAL EXAMINER. I assume that you are making the statement, you are not referring to a statement that he has made elsewhere?

5075 Mr. SLAFF. I will come back to the statement that he has made.

By Mr. SLAFF:

Q. It is not an accurate statement to say that no costs are included in the Federal Power Commission original cost exhibit for the Hope Natural Gas Company, Office and Warehouse No. 9001, in the Bridgeport District, is it?

A. Well, as far as you have gone you are correct. Of course, in my testimony yesterday, I said that part of the costs were not included. That was, I believe, the answer to the first question asked.

Q. Now also with respect to the Drilling Tool Shed, No. 9003, the original cost exhibit of the Federal Power Commission does include costs for that Drilling Tool Shed, does it not?

A. Well, it includes incomplete costs.

Q. Well, it does include costs for that Tool Shed, does it not?

A. Yes, it does.

Q. All right—

A. (Interposing.) Certain costs.

Q. Again with respect to that Drilling Tool Shed, No 9003, in the Bridgeport District, it is inaccurate to say that there are no costs included for that Drilling Tool Shed in the Federal Power Commission original cost exhibit?

A. I didn't say that.

5076 Q. Isn't that correct?

A. No, sir.

Mr. MILDE. I object to that question, because nobody has made that statement except Mr. Slaff.

Mr. SLAFF. No one except the exhibit on its face, that is all.

Mr. MILDE. The statement is not made in the exhibit, and we are not cross-examining Mr. Antonelli about the correctness or incorrectness of statements made by Mr. Slaff. It is perfectly apparent that when it says Office and Warehouse, No. 9001, and lists items of property that are excluded, that you can't take part of the description and say—is that an accurate or inaccurate statement?

TRIAL EXAMINER. It also says there, "All material and construction costs"; what does that mean?

Mr. MILDE. For this concrete block wall, et cetera, as contained in Office and Warehouse No. 9001.

Mr. SLAFF. It is thoroughly patent to me, Mr. Examiner, that this is a completely misleading exhibit beginning with column 1, and I think I have a right to develop that.

TRIAL EXAMINER. Well, the way I would read this, the way I would interpret it would be that it included all of the Office and Warehouse No. 9001, and these items set out under that are simply specifications of what might have gone into it. I certainly would not conclude that it only meant a portion

5077 of that office and warehouse.

Mr. MILDE. Well, I think if Mr. Antonelli hasn't made that clear already, he should, because it is those parts of these buildings for which all construction and material costs are excluded.

Mr. SLAFF. It seems perfectly patent that it hasn't been made too clear up to now. If the Examiner understands it as he stated, and as I understood it until I started to get into the

underlying work papers and found that the original cost exhibit of the Federal Power Commission did include costs for many of the items set out in column 1.

TRIAL EXAMINER. As I understand it now, then, the first line in each of these items represents the structure concerned, and then below that you set out in more detail the items which were not included, is that it?

Mr. MILDE. That is right. Take that first item. Now Office and Warehouse No. 9001, the following parts of that building, as it were, were not included in the Commission examiners costs, but were included by Mr. Antonelli, the concrete block wall, plasterboard, millwork, plumbing fixtures and electric lights, and the exclusion there is all material and construction costs for those parts of the building. Now if you will run down to, say, the Dresser Coupling Shed, No. 9056, which is the second item under the Buffalo District, there the amount excluded is the 5078 building itself, you see "One story, wood frame structure, with rolled roofing and wood sheathing sides". That means that in that case the entire building was excluded. Frankly, it was difficult to set these matters up, but we did it in a way that we thought would give as nearly a complete story as we could, and you really have to read each one of these subsidiary items to know what part of the cost of a building, whether it was all or part, has been included by Mr. Antonelli and excluded by the Commission examiners.

Take the bottom line of this page, Screw Coupling Shed, No. 9058, and there the description is a description of the entire building, "One story, wood frame structure", and so on, whereas, if you go up to the Oil House, No. 9002, the second item, the omitted parts there are the millwork, electric lights, and so on.

Is that a correct statement, Mr. Antonelli, of the way this item is set up?

The WITNESS. That is entirely correct, that is exactly what we did.

TRIAL EXAMINER. It seems to me that under this arrangement here, you would have set up, under this first item, the entire original cost of this structure as shown in Exhibit No. 20. That would appear in column No. 1, or No. 2, rather, and then over here you would have shown the amount included by the F. P. C. original cost exhibit and the amount excluded, and 5079 explain the amounts which were excluded.

Mr. MILDE. Well, that would have meant practically a reproduction of these 70,000 work sheets that we have.

TRIAL EXAMINER. Well, it doesn't seem to me that it would. Of course, I don't know as we are accomplishing anything by arguing about it, but if you put this concrete block wall, and so forth, over in the last column, that would have made it clearer.

Mr. MILDE. That might have been a better way to set it up. You don't always think of the best ideas first. I want the Examiner, however, to be perfectly clear what this exhibit shows on those structural items; those parts or all of the structures that have been omitted are described under the name of the structure. I think the only exception to that, that I should direct your attention to, is in the case of the lease and land accounts—

Mr. SLAFF. (Interposing.) We will come to that. I would like to proceed.

TRIAL EXAMINER. Proceed.

By Mr. SLAFF:

Q. Do you agree, Mr. Antonelli, with Mr. Milde's testimony?

A. Yes, sir; I do.

Q. Now with respect to the items on page 72, then, as he explained it, taking the Tool Shed listed in the Buffalo 5080 District, one story, wood frame structure, et cetera, that indicates that no costs were allowed for in the Federal Power Commission exhibit, is that right?

A. No; there is another item, 9056 seems to be a complete building.

Q. I am just taking them one by one.

A. Oh.

Q. Now with respect to No. 9055, because there is that description, we are to understand that no costs were allowed in the Federal Power Commission exhibit of that building, is that right?

A. That is right.

Q. The same is true with respect to 9056, is that correct?

A. Yes.

Q. 9057 also?

A. Yes, sir.

Q. Go over to 9060 on page 73. That is described as a one story, wood frame structure with rolled roofing, et cetera. Were any costs included in the Federal Power Commission original cost exhibit for that item?

A. No, sir.

Q. None whatever?

A. No, sir.

Q. Where is that listed in your working papers?

5081 A. It is listed on page 12, book 137.

Q. Is it not a fact that \$325.51 of the cost of that storage shed was included in the Federal Power Commission original cost exhibit?

A. I can't say offhand unless I refer to my papers.

Q. You just said offhand a minute ago that no cost was included, didn't you?

A. Yes, sir; I did, according to this.

Q. Now what do you say on reconsideration?

A. I don't know what is in the papers.

Q. Go to your working papers.

A. I haven't got those working papers with me. I will produce the working papers and check it up.

Q. Will you check that up?

A. Yes, sir.

Q. Tell us if that is not a fact with respect to storage shed No. 9060.

A. 9060 or 9059?

Q. 9060.

A. I don't think there is anything included in the Federal Power Commission exhibit for this particular shed; but I would like to check it.

Q. By all means.

A. I will.

Q. Now let's go to the leases.

5082 From pages 4 to 30 in your Account No. 330-2, Natural Gas Producing Leaseholds, Operated, how many leases do you show on those 26 or 27 pages?

A. I haven't counted them.

Q. Well, I total about 2,650; does that sound about right to you?

A. Well, I will check it up. Yes, that is about right.

Q. Now you show, do you not, obtaining costs for each one of those leases?

A. No, sir.

Q. As excluded in the Federal Power Commission original cost exhibit?

A. No, sir; I don't.

Q. Well, what do the words "Obtaining cost" mean in line 1 of page 4, column 7?

A. As I testified yesterday, I said either obtaining or recording or abstracting, and an occasional consideration.

Q. With respect to Lease No. 578, did you include, as shown on page 4, obtaining costs?

A. No, sir; in that case I included \$17.20 for abstracting cost. That is all that is included in that particular lease.

Q. What about lease 1897?

A. 1897?

Q. Yes.

5083 A. I don't have that lease, but I can look it up.

Q. What about 3977?

A. On 3977, I have costs of obtaining of \$8; and I have costs of abstracting of \$17.20; and costs of recording—\$1.35.

Q. And for that lease 3977, you have no consideration?

A. Well, the consideration was capitalized, it wasn't necessary to include the consideration here.

Q. Then the consideration was not excluded in the Federal Power Commission original cost exhibit with respect to lease 3977, was it?

A. No; I never said it was.

Q. Well, your exhibit shows it as excluded in the Federal Power Commission original cost exhibit, does it not?

A. Well, this is only a brief description—

Q. (Interposing.) You mean a brief misleading description?

A. No; it would have been a tremendous typing job to list every cost separate, Mr. Slaff.

Q. Well, it is a tremendous job, Mr. Antonelli, I want you to understand, for me to have to go through this with you and make it understandable and correct.

A. I went over it with Mr. Pace. He came down to Clarksburg and we spent two days with him, and he examined the books, and it was perfectly clear to him that these were only part costs.

5084 Q. Mr. Antonelli, did you tell us in your direct testimony that the consideration cost of Lease No. 3977 had been included in the Federal Power Commission original cost exhibit?

A. Yes, sir; a general statement was made to that effect.

Q. With respect to Lease No. 3977, which, as far as your Exhibit 60, page 4, indicates, the consideration therefor was excluded in the Federal Power Commission cost exhibit.

Now, with respect to that specific lease, did you tell us, anywhere in your direct-examination, that the consideration cost for

that lease was included in the Federal Power Commission original cost exhibit?

A. Well, nobody asked me. No; I didn't.

Q. Well, were you holding out because nobody asked you?

A. Oh, no.

Q. Well, did you go over your testimony in advance with your counsel?

A. Yes.

Q. You knew what he was going to ask you?

A. Sure.

Q. And you knew in advance, before you got on the stand, didn't you, that you were not going to tell us with respect to any of these specific leases here, which your exhibit shows costs to have been excluded in the Federal Power Commission original cost exhibit, that those costs were not excluded?

A. Well, as a matter of fact, I did, now when I come to 5085 think of it. I gave you the total amount for this cost to be \$49,000, of which only \$15 was consideration. Therefore, anyone, I assume, would understand that it cost more than \$15 to purchase or to acquire these leases. I did say that; I did say that yesterday.

Q. And it is on the basis of that answer that you—in your mind, at least—justify stating that consideration costs for various of these leases are shown to be excluded in the Federal Power Commission exhibit, is that right?

A. Not only on that statement. I explained this exhibit to Mr. Pace, and I also made a statement yesterday which showed that the omitted costs were only part costs or the direct material and labor costs that were not capitalized on the Company's records.

Q. Now you show recording costs as excluded in the Federal Power Commission exhibit for each and every one of these 2600 or more leases, do you not, in your Exhibit No. 60?

A. No, sir; I don't.

Q. Well, do you show in line 1 of page 4 that recording costs for the three leases there shown were excluded in the Federal Power Commission original cost exhibit?

A. Not in this exhibit, it is shown on page 21.

Q. Turning to page 4—

A. (Interposing.) Yes, I have page 4.

Q. Does that show that the recording costs for the three 5086 leases in the first line were excluded in the Federal Power Commission cost exhibit?

A. No, sir; it doesn't.

Q. It does not?

A. Not on this page; no, sir.

Q. Well, now, are you looking at column 7?

A. I am looking at column 7.

Q. What is the heading?

A. It says, "Obtaining, recording"—

Q. (Interposing.) No, the very top heading.

A. "Excluded in F. P. C. Original Cost Exhibit."

Q. That is right.

Now that means, I take it, excluded in Federal Power Commission original cost exhibit, is that right?

A. That is right.

Q. And underneath that heading are set out the items which were excluded in the Federal Power Commission original cost exhibit, is that not correct?

A. Yes, sir; that is correct.

Q. All right. Now with respect to the three leases in the first line on page 4, according to column 7 of your Exhibit 60, page 4, recording costs for those three leases were excluded in the Federal Power Commission original cost exhibit, isn't that so?

A. That is correct, but—

5087 Q. (Interposing.) Just a minute, we will get to your explanation.

Mr. MILDE. Let him finish now.

Mr. SLAFF. I have no objection to his making an explanation. But I would like to have him make it in an orderly fashion at the right time.

Mr. MILDE. This is the point that he has selected to make that explanation.

TRIAL EXAMINER. You want to strike out your original statement, "That is correct"?

The WITNESS. No, I would like to qualify my statement, Mr. Examiner.

TRIAL EXAMINER. You don't mean, then, that it is correct; you mean it is correct with qualification?

The WITNESS. That is right.

I would like to say that yesterday I explained that the costs excluded by the Federal Power Commission were either obtaining or recording or abstracting and an occasional consideration.

I was very particular about that, and the only reason that we did it this way was to save time and save a typing job. Other-

wise, we would have had about 10,000 pages here in this report. That is the only reason we did it the way we did.

By Mr. SLAFF:

5088 Q. Are you all through with your qualification?

A. Yes, sir.

Q. Do you want to make any more? Feel free to if you want to.

A. No; that is all.

Q. Now we have got your answer complete, then?

A. Yes, sir; you have.

Q. Now then, to get back to the original question.

As far as the face of this exhibit is concerned, page 4 of Exhibit 60, your represented in the exhibit that with respect to the three leases shown in the first line, the recording costs were excluded in the Federal Power Commission cost exhibit, isn't that correct, Mr. Antonelli? Isn't that a fair statement?

A. Well, not the way I look at it.

Q. Looking at the face of the exhibit? Look at that for a while, will you, and tell me if that isn't a fair statement that I have made to you?

A. I assume that someone not familiar with these pages might take it that way.

Q. Well, isn't it a fair statement, Mr. Antonelli, that anyone looking at this exhibit, looking at the exhibit itself, would find that you were representing in the exhibit that recording costs for the three leases set out in the first line of that page had been
5089 excluded in the Federal Power Commission original cost exhibit; isn't that a fair statement of what any reasonable person, looking at that exhibit, would understand, Mr. Antonelli?

A. Yes, sir.

Q. And the same is true, Mr. Antonelli, is it not, with respect to all the other leases set out on that page, that is to say, that any reasonable person looking at your exhibit would understand that you were representing that the recording costs for each and every one of the 2,600 leases contained in those pages 4 to 30, had been excluded in the Federal Power Commission original cost exhibit; isn't that so?

Mr. MILDE. Well, now; I object to that, because that isn't pertinent to this case. It isn't a matter of whether any reasonable person—

Mr. SLAFF (interposing.) It is pertinent to the fact that this is the most misleading exhibit, or one of the most misleading, that has been put in by the Company.

Mr. MILDE. May I finish?

TRIAL EXAMINER. Yes, proceed.

Mr. MILDE. This exhibit is part of a great mass of testimony on the matter of costs of leases and other things. It fits into the Company's exhibits and the Commission examiners' exhibits, and it is perfectly apparent, when those are all compared, precisely what is shown here.

Mr. Antonelli read the dollar amounts yesterday. We 5090 are not concerned here whether somebody to whom we handed this exhibit, on the street, even if he was a reasonable man would have any idea what it was about, he probably wouldn't. But fitting into the picture with all these other exhibits that are in here, which show that the Commission examiners have allowed so much for operated leases, and Mr. Antonelli claims so much, and there is a difference, his explanation as to what the dollar amounts are included in these things yesterday, it is all perfectly clear in the record and there was not the slightest attempt on the part of the Company to misrepresent the situation.

Now unfortunately, on some of these exhibits you don't always get them into the precise technical shape you would like, and I am sure Mr. Slaff wasn't misled, and we got this exhibit up in a hurry for cross-examination, and if we were doing it again we probably wouldn't do all this ditto marking, and that is why I had Mr. Antonelli explain yesterday that in the case of these leases, with respect to various leases, sometimes it was the recording cost and occasionally the consideration cost, and the abstracting cost and occasionally the obtaining cost, and he read the dollar amount of each of those in the record, and that was for the purpose of trying to make clear that we didn't intend by this exhibit to represent—and the Commission's staff knows that—we didn't intend to represent, in the case of each and every one of 5091 these leases, that all of these costs were excluded.

I think Mr. Slaff is right in saying that if you just presented it to somebody who just read the English language, without knowing anything about this case, he might get a wrong impression, and I had hoped yesterday that Mr. Antonelli had cleared that up.

In the case of leases and land accounts, some costs, of course, have been included by the Federal Power Commission exhibit, that is shown by this exhibit, it is shown by the comparison exhibits that are in this case; it is shown by our exhibits.

And this inventory of omitted items is intended to show the character of the excluded costs, and I don't want the Examiner

to think that we intended to make anything but a perfectly frank statement as to what this was, and I hoped that it had been clarified yesterday when I had Mr. Antonelli tell what the dollar amounts were.

My objection is based on the ground that to ask Mr. Antonelli whether a reasonable man would look at this and draw certain conclusions, just isn't pertinent to this case.

If he wants to ask whether he thinks somebody who knows all about these other exhibits would be misled, that might be pertinent.

Mr. SLAFF. As matter of fact, Mr. Examiner, this exhibit is thoroughly misleading, and it wasn't until last night, 5092 when I started trying to reconcile parts of his testimony with this exhibit, that I become aware first of the fact that apparently all these costs set out as excluded were not as had been represented in the exhibit. Up until that time—and I made, I think, a reasonably careful check of the exhibit—I had taken it for granted that they were as represented here.

Mr. MILDE. Well, I think, that is perfectly understandable, because Mr. Slaff hasn't been in this case from the beginning, and he doesn't know what these other exhibits are. I think if he were coming into it fresh, he might well have the viewpoint of the man on the street, and not—

Mr. SLAFF. (Interposing.) Let's get the viewpoint of the man who purports to be a little familiar with the case.

TRIAL EXAMINER. Objection overruled.

Mr. SLAFF. Can we have the question, Mr. Reporter?

(The question was read by the reporter as follows: "Q. And the same is true, Mr. Antonelli, is it not, with respect to all the other leases set out on that page, that is to say, that any reasonable person looking at your exhibit would understand that you were representing that the recording costs for each and every one of the 2,600 leases contained in those pages 4 to 30, had been excluded in the Federal Power Commission original cost exhibit; isn't that so?")

The WITNESS. It is a little misleading, I will admit that.

5093 By Mr. SLAFF:

Q. And the same is true also with respect to Account 330-2, "Natural Gas Producing Leaseholds—Unoperated," as set out at pages 32 to 62?

A. Yes, sir; that is correct.

Q. Now with respect to these 2,600 leases, or thereabouts, set out at pages 4 to 30, for which you show obtaining costs for all of them, there were obtaining costs attached to only about how many, do you know?

A. The obtaining costs were attached only to the leases that were purchased from landowners, I can't say how many.

Q. About 300, wouldn't it be, instead of the 2,600 for which you show obtaining costs?

A. Well, I will tell you how many.

Q. How much did you use for the average obtaining cost?

A. \$8.

Q. \$2,400 was your total for obtaining costs?

A. That is about correct; yes.

Q. Now what was the average recording cost, approximately, do you know?

A. The average recording cost I would say amounted to maybe \$1.50 or maybe \$2, I can't tell—probably there were 400 recordings.

Q. Instead of the 2,600 for which recording costs are shown as excluded by the Federal Power Commission exhibit, 5094 original cost exhibit, there are only 400, approximately?

A. That is right.

TRIAL EXAMINER. What was the total amount of that cost?

Mr. SLAFF. \$704.

The WITNESS. That is for operated leases.

By Mr. SLAFF:

Q. And, of course, with respect to all those numberless leases for which you shown consideration costs, probably only a very, very few of those actually had any consideration costs which were excluded in the Federal Power Commission original cost exhibit; that is also correct, is it not?

A. I think there was only one lease, I am not quite sure.

Q. Well, if there was only one lease, Mr. Antonelli, or only two leases, that had any consideration cost excluded by the Federal Power Commission exhibit, why did you show consideration costs excluded by them for every one?

A. Well, this was only a general heading, Mr. Slaff, and I probably should have made it a little clearer. I agree now with you that it is not as clear as it should have been.

Q. Let's go a little further into that. You show a consideration cost for all the leases set out on pages 4 to 11 of your exhibit. don't you?

A. 4 to 11?

Q. Yes.

5095. A. Yes, sir.

Q. Then at pages 11 to 20, you drop consideration costs as having been excluded in the Federal Power Commission original cost exhibit, isn't that so?

A. No; that must have been a mistake in typing, that is the first time I noticed that it was dropped; or maybe there wasn't any consideration for those particular leases. I will have to check that.

Q. Well, we know there wasn't any consideration for those?

A. Yes.

Q. And we know that there wasn't any consideration for all but two of the rest of the 2600, isn't that so?

A. I will have to check that statement. Maybe a consideration did appear to the extent of maybe a dollar per lease.

Q. If it was a dollar per lease, there couldn't have been any more than 15, could there?

A. I will have to check that.

Q. Let's have an answer right now. The total consideration cost of these leases was \$15, wasn't it?

A. That is right.

Q. Now considering a dollar lease, that means that the consideration cost, excluded as you claim by the Federal Power Commission exhibit, applied to only 15 of the leases at a maximum, isn't that so?

5096 A. No; it may be 50 cents.

Q. Well, we will get to the 50-cent basis. At a dollar a lease consideration—

A. (Interposing.) That will affect 15 pages.

Q. 15 pages or 15 leases?

A. 15 pages, because maybe each lease might be on a separate page.

Q. Now, let's start all over again, Mr. Antonelli, so you understand my question.

Let's begin from the beginning. You told us there were \$15 of consideration costs excluded by the Federal Power Commission's original cost exhibit, is that right?

A. Yes, sir.

Q. Now you don't want to change that statement, do you?

A. No, sir; I don't.

Q. Now you told us a little earlier this morning that maybe that applied to a couple of leases, one or two leases, and you apparently do want to change that statement now, is that correct?

A. Yes; I am not quite sure now when I see all the consideration appearing on certain pages and not on other pages. I would like to change my answer.

Q. Do you know of a consideration for a lease of 50 cents in the Appalachian field?

5097 A. No; well, I can't say offhand.

Q. Do you know of any?

A. Yes, I think so. They get some for nothing.

Q. But did you ever hear of a consideration of a half a dollar being offered?

A. Oh, yes; sure. I think you will find some in our working papers.

Q. And a quarter.

A. Yes, and 5 cents.

Q. You did?

A. Yes.

Q. Do you have any distinct recollection, or are you just plucking things out of thin air?

A. No; I am talking from records. I am pretty certain that I found some 5-cent considerations.

Q. Now of course you testified that they got some leases for nothing?

A. There are some leases included in here that the Company paid just obtaining and abstracting and recording costs on.

Q. Now, getting back to your consideration of \$15, you have no idea whatever of how many leases that applies to?

A. Not offhand; no, sir.

Q. Do you have any judgment?

A. No; there are too many leases, I can't guess it.

5098 Q. You mean that on that one thing you won't guess, is that right?

A. Not until I look at my papers, and then I will tell you the right answer.

Q. Now can you tell us why, after setting out, on pages 4 through 11, consideration costs as excluded in the Federal Power Commission original cost exhibit for all the leases up to the last five lines of page 11, you, from that point on, through the 15th line on page 20, did not show consideration costs as excluded? What occasioned the change?

A. Well, I can't answer that question offhand. I will look it up at noontime and look up the working papers, and I will be glad to answer the question, because anything I say now will be a guess.

It was done in a hurry, it might be that it was just a mistake, but I don't think it was a mistake. The other reason might be that the boys were certain that there was no consideration for those leases listed in this particular book, which is Book 22, and so they left that out. I am very certain that it was done on purpose, because, as you will notice, that is in Book 22.

Q. Yes; and it occurs in the middle of a page, and one thing or another?

A. Yes; there possibly wasn't any cost of consideration shown in this particular book, and therefore the boys left out the word "consideration."

5099. Q. Now then, will you check that and find out the reason for it?

A. Yes, sir.

TRIAL EXAMINER. As I understand your explanation, these are not general statements over here in column 7, but are applicable to actual situations, is that correct?

The WITNESS. No; they are general statements, but apparently Book 22—and by "Book 22" I mean the Original Cost 22, where all those costs are set up in separate columns—did not show any consideration expensed.

TRIAL EXAMINER. And those in book 21 do show consideration expense?

The WITNESS. Yes.

MR. MILDE. That is for one or two leases?

The WITNESS. That is right, that is apparently what has happened.

TRIAL EXAMINER. The difference, then, is with respect to one or two leases?

The WITNESS. Yes; we are just talking about \$15 now.

By Mr. SLAFF:

Q. Was the rest of this exhibit prepared with the same care, Mr. Antonelli, as went into the preparation of that part of the exhibit that deals with Account No. 330-2?

A. Well, the rest of the exhibit shows definitely what the items are. This was the only one that we had a general
5100 statement on, on account of the large typing job.

Q. That isn't the question. The question I put to you is: Did the people who prepared this exhibit, and you in supervising the preparation of the exhibit, devote any more care to that portion of the exhibit that deals with other accounts, than you did to that portion of the exhibit that deals with Account 330-2?

Mr. MILDE. I object.

TRIAL EXAMINER. The objection is overruled.

The WITNESS. I would say that the whole exhibit was prepared with great care. We didn't try to do one account better than the other account, and it was all prepared with great care.

By Mr. SLAFF:

Q. I mean, whether it was prepared with great care or not is perhaps something that someone else other than you and I will judge, but at least it was all prepared, in your judgment, with the same degree of care throughout?

A. Yes; there wasn't much to do but record these costs from the original cost books. There wasn't any trick involved in summarizing these books.

Q. Of course, whether or not there was a trick involved is also another question?

A. Well, there wasn't.

Q. Then, as I understand your answer, and I don't know
5101 whether you answered my question, but as I understand it you didn't put any special care on one part of the exhibit as against another, it was all prepared in the same general way?

A. That is right.

Q. Now will you turn for a minute to page 356. You show there, do you not, in the first four items, expenses in connection with Line H-2?

A. Yes, sir.

Q. When was that line laid?

A. The line was laid in 1902.

Q. When was the first amount shown in column 2, of \$219.60, spent by the Hope Company?

A. In December 1902.

Q. And what is the voucher reference on that?

A. M-225, 1902. The amount is \$15.07.

Q. Now is the total of \$219.60 made up of several items?

A. Yes, sir.

Q. All expended in December of 1902?

A. No, sir; the first one was in connection with freight and it happened to be in December 1902. The amount was \$15.07.

Q. All right, when was the next?

A. The next one was——

Q. (Interposing.) And by the way, to what account was that amount charged?

A. Well, it was charged to expense, I don't know the
5102 account.

Q. It was charged to an operating expense account number?

A. It wasn't capitalized, it was charged to expense.

Q. Just a minute, Mr. Antonelli. Was it charged to an operating expense account?

A. I think it was; yes. I don't know, but I am certain it was; I would have to check it.

Q. Well, will you check it and tell us to what operating expense account that amount was charged?

A. Yes, sir.

Q. Now when was the next item going into that total of \$219.60?

A. The other item pertains to a labor expense and has a voucher number H-126, 1902, for \$4.34, probably in August.

Q. Of what year?

A. They are all 1902.

Q. Tell me this: Were all of these items going into the total of \$219.60 charged to operating expense accounts?

A. I think they were; yes.

Q. Now going to your item of \$18,323.64, when was that incurred?

A. Well, I think that was incurred in 1905 or 1906, I am not exactly sure of the date, but it was two or three years after the line was laid.

Q. And what was the nature of the work in connection
5103 with which that expense was incurred?

A. Well, that was in connection with clamping this 18-inch line going to Cleveland.

Q. And to what account or accounts were the expenses that went to make the total of \$18,000, charged?

A. I think they were charged to operating expense. I will have to look that up this noontime, and I will let you know.

Q. That is made up, is it not, of a great number of vouchers for small amounts?

A. No; I think that is only one voucher, but I will check it.

Q. Will you check that?

A. Yes.

Q. And will you also check the specific accounts so that you can tell us the specific accounts to which the expenditures were charged?

A. Yes.

Q. Now going to the next item on that page, 639 feet of 18-inch pipe of line H-2, when was the expense in connection with that incurred?

A. Well, I can't say that offhand, I will look it up. I can't remember all of these things, and I don't have my details here.

Q. All right, check that, please.

5104 Q. Will you also check the item of \$9,673.62?

A. I can tell you something about that.

Q. All right.

A. The \$9,673.62 represents the cost of laying an additional river crossing.

Q. When?

A. I am sorry, I will have to look that up. I haven't got the information here.

Q. And you will tell us when, and also what accounts the items were charged to?

A. Yes, sir.

Q. Now going to page 357, and taking the largest item on that page, Clamps on pipe line H-2, the next to the last item, that shows an expenditure of \$15,638.63, does it not?

A. Yes, sir.

Q. When was that expenditure made, do you know?

A. It was made, I would say, two or three years after the line was built.

Q. Made about 1906, wasn't it?

A. Somewhere around there, 1905 or 1906.

Q. And do you know whether or not that was charged to Account No. 2, repairs to lines?

A. No, I don't, but I will be glad to check it.

Q. You will verify it?

A. Yes.

* * *

5107 PETER ANTONELLI resumed the stand and testified further as follows:

Cross-examination (resumed) by Mr. SLAF:

Q. Now, Mr. Antonelli, in respect to the items we have been discussing on pages 357 and 356, are there specific vouchers in back of each of the expenditures there shown?

A. There are specific vouchers for the amount of approximately \$58,000 out of \$103,000 not included in the Federal Power Commission Exhibit 57.

Q. Are those specific vouchers for material costs or for construction costs, or for both?

A. They are for both. \$15,638.63 is for equipment costs, and the rest of it, I believe, is mostly for constructing river crossings and replacing river crossings, and so on.

Q. How much did you say was for material costs?

A. \$15,638.63.

Q. With respect to the difference between the amount for which you found specific vouchers, and the \$100,566 total shown on page 358, how did you determine that difference?

A. This difference represents construction costs for extensions of the lines listed on these two pages, namely, 356 and 357. The material for these extensions was capitalized, and we didn't have any trouble in finding it, and found out what date they were installed, and so on—

Q. (Interposing.) If I may break in without interrupting your train of thought, you say you had no trouble finding the material costs. Did you have specific vouchers for that?

A. Yes, sir; we did.

Q. Well, let's start all over again, then.

Tell me first off, out of this total of \$100,566.82, for how much did you have specific vouchers?

A. Well, approximately \$58,000, and about \$45,000 we did not have vouchers for.

I was looking at page 357.

Q. All right, \$102,962, right?

A. Yes.

Q. And for \$58,000 you have specific vouchers?

A. That is right.

Q. That leaves?

A. \$44,000.

Q. For which you have no specific vouchers?

A. Yes.

Q. Now with respect to that \$44,000, how did you determine the amounts which went into that total?

A. That is just what I was trying to explain before you interrupted me.

Q. Well, the explanation didn't seem to me very clear.

A. I have to give this kind of an explanation.

By going to the capital account for the main lines, we found that the Company has capitalized the extensions of these lines that are shown at pages 356 and 357. This list represents mostly exten-

sions of initial installations, and as I said, the material was capitalized and recorded on the Company's books.

However, the labor for construction of these lines was not capitalized; only the initial installation of the lines was capitalized. By that I mean that when the line was laid, they capitalized both the material and labor; but with additions they as a rule capitalized only the material.

Therefore, there was no way for me to find the actual construction costs of this extension. Therefore, it was necessary for me to estimate these costs, and they were estimated, based on known costs for similar lines in about the same period.

In other words, we summarized all of the costs of 10-inch pipe—transmission line I refer to now—and found out that for a certain period the cost might have been, say, 90 cents a foot, and 5110 we applied that 90 cents a foot against the 10-inch extension lines that were shown in here. That gave us a result which was very conservative, because, as everybody knows, extensions cost more money than the initial installation, but that was the best we could do, so we used this conservative estimate.

Q. Did you add anything to the known labor costs?

A. No, sir; I just used them as I found them on the Company's records.

Q. Did you add 25 percent to the known labor costs in this connection, or in any other connection, in your exhibit?

A. I don't know what you mean by 25 percent overhead cost; I didn't add anything but the costs as I found them on the Company's records.

Q. Did you increase your labor costs, as found in the Company's records, by 25 percent in any case in the preparation of your estimates?

A. Well, I don't understand your question—which estimates?

Q. The ones that you are referring to now and those that were made in connection with Exhibit 60.

A. Are you referring to Account 353?

Q. I am referring now to any of the estimates made in Exhibit No. 60.

A. I thought you were talking about Account 353.

Q. Well, I am asking you a general question now.

5111 A. Well, I haven't added any overheads.

Q. I didn't ask you whether you had added any overheads. I asked you whether you had increased the cost of labor, as determined from your analysis of the company's records, by 25

percent in any of the labor estimates that you made in connection with the items shown in Exhibit No. 60?

A. No, sir.

Q. You did not?

A. No, sir; I haven't added any 25 percent to the Company's records, no, sir.

Q. All right, let's leave page 357 for a moment—we will come back to that—and let's turn to page 72 of your exhibit.

Have you that before you?

A. Yes, sir.

Q. The first item there is Office and Warehouse, No. 9001, Concrete block wall, et cetera—is that right?

A. Yes, sir.

Q. And an amount is shown of \$442.44, is that right?

A. Yes, sir.

Q. How was that amount derived?

A. In this case of this Office and Warehouse, No. 9001, the incompleting costs for this building (and by "incompleting costs"

I mean that part of these costs were found on the Company's 5112 records and capitalized, and the amount shown here was not capitalized and not allowed by the Federal Power Commission), we were unable to find the cost of the concrete block wall, plasterboard and millwork, plumbing fixtures and electric lights in any of the investment structure accounts. Therefore, we estimated in this case the material cost and the construction cost.

Q. And you estimated the material cost—

A. (Interposing.) By using, for the material costs, vouchers for exactly the same kind of materials, maybe the voucher would be exactly for the same materials, but I couldn't identify it; but for the same kind of materials that were expensed. In other words, they weren't capital vouchers.

That gave us the cost of the material.

Now as far as the labor is concerned, we estimated the labor using the performances, the Company's performances. Those performances were again determined by analyzing several compressing station structures where we knew the actual cost of installing or constructing these compressing station structures. We picked those stations because we were certain that the costs were complete.

Now in order to simplify the work, we developed unit costs using just ordinary performances which weren't applicable to this particular Company, but just ordinary performances.

Q. That is from the Company records?

A. No, not yet; I am coming to that.

5113 Now to these performances we applied the actual labor rates that the Company pays, and we got a unit cost. Then we applied those unit costs to the material, the quantity of materials for these stations that we knew the actual cost. Then we totalled them, then we divided this total into the total of the actual costs of the compressing station structure that we did know, and the percentage varied from 20 to 30 percent, or something like that. So we decided to use 25 percent.

In other words, we added 25 percent to this performance we had worked up to equalize them to the performances of the Company, and I think that is what you had in mind.

Q. After analyzing the Company's records and developing unit performances, and developing labor costs per unit, you then added 25 percent on top of that to the labor costs, did you not?

A. No, sir.

Q. Well, let's start again?

A. I didn't say that at all.

Q. You developed the material costs, did you not?

A. Yes, I developed the material costs.

Q. Then you proceeded to analyze the Company's records to determine your labor costs, right?

A. Yes; and I found—

Q. (Interposing.) Just a minute. And from that you
5114 determined the labor performances?

A. No, sir; I didn't; I didn't say that.

Q. Well, did you or did you not?

A. No.

Q. Were your labor costs developed as a ratio of material in any cases?

A. I don't know what you mean by "ratio."

Q. Mr. Antonelli, don't you know what a ratio is?

A. Well, not in this sense, no.

Q. Well, do you know what a ratio is, just a plain ratio?

A. Well, a ratio is a relation between one thing and another.

Q. Then you know what ratio is?

A. Yes.

Q. Did you develop labor costs as a ratio to material costs in any instance?

A. I found, in the case of compressing station installation costs, the relationship between the total construction costs and the total

material costs of the initial installation before retirement, to obtain the relation of labor to material; yes, I did.

Q. Then you did develop a ratio, you did develop labor costs as a ratio of material costs, is that right?

A. Well, not in the sense of the way you are saying it. I found out what was the relation, say, in a compressing station, between the labor and material. Say the relation was 25 or 30 percent. I used that as a basis in some cases to price certain items; yes.

Q. Now in what cases?

A. That is in the case of compressing station installation costs.

Q. Now what ratios did you develop?

A. Well, they vary according to the station and the year and the type of equipment, and so on. We didn't just take one ratio, we made sure that we got what was right.

Q. Let's confine ourselves for the minute to Office and Warehouse, No. 9001.

Did you determine your labor cost by the application of a ratio to your material costs?

A. No, sir.

Q. You did not?

A. No.

Q. Did you in the case of any item contained in Account No. 331-3?

A. Well, there are so many items, I don't know, but I don't think so. I can't say offhand, but I don't believe so. There might be an item here and there.

Q. Will you bring in Book No. 136 this afternoon?

A. Yes, sir; I will be glad to if it is here.

Q. Well, if it is not here, send for it.

5116 A. All right.

Q. Did you make a study, in connection with this and other items—and I am referring to 9001, Office and Warehouse—of the Company's labor performance, by years and by districts, from the Company's records?

A. I think we did, not in the case of this account, but I believe in the case of the Account for the Measuring and Regulating Structures.

Q. How did you determine the labor performance to estimate the construction cost of this Office and Warehouse, No. 9001, shown on page 72?

A. As I explained it—do you want me to explain it again?

Q. Well, you explain it.

A. We have developed unit costs. That was the basis of it.

Q. Did you develop unit performances for specific types of activity?

A. Yes, sir; we did.

Q. And was that from the Company's records?

A. No, sir.

Q. Now what was that from?

A. That was a general engineering performance, the general engineering performances that we use for estimating purposes——

5117 Q. (Interposing.) Well, weren't you developing Hope Company's costs and not general costs?

A. Yes; but you didn't let me finish. I was going to tell you what we did after that.

Q. Go ahead.

A. We got these general performances and we did that just as a matter of convenience. There were so many small items of this type, and we had to finish the job, the Company was pressing me for time, and I had to do something about it.

So that is why we used these general performances.

To these general performances, which was just hours, we applied the Hope Company's labor rates.

Q. Where did you get those labor rates?

A. Those labor rates came from the Company's payroll vouchers and the Company's records, the genuine labor rates paid by the Company. That is the second step.

After that we applied this performance—now we have complete performance, cost per foot for laying brick, or what not—we applied these performances to three stations for which we actually knew the installation costs, and we knew the quantity of material that went into these stations. Of course, that was as of the date when the station was built. We totalled it, and say that this station came to a certain amount of dollars for installation. That was on one hand.

On the other hand, we had the total cost for installation
5118 of these stations that I referred to. Now, dividing one by the other we found out that these general performances were 25 percent, on the average, higher than what the Company's performances were.

Therefore, we increased the cost 25 percent. That was done as a matter of saving time. I could have done it the other way and avoided all these arguments now.

Q. Well, after developing general performances, units of performance, to which you applied the Hope Company labor rates, you then increased the total dollars thus derived by 25 percent, is that correct?

A. That is in the instances that I used the estimate.

Q. For example, in connection with the Office and Warehouse, No. 9001, you developed, did you not, a material cost of \$270.04, and then a labor cost, on your general performances, of \$172.40, which latter amount you then increased by 25 percent, which gave you a total of \$442.44; that is correct, is it not?

A. I don't know the amount, but we did substantially that in order to get the performances of the Company.

Q. And that was in line with your conservative policy, is that correct?

A. Absolutely; yes.

Q. Now while we are on that subject, will you tell us where, in the System of Accounts of the West Virginia Commission or the Federal Power Commission, you find authority for making such estimates in determining the original cost of a natural gas company's property?

A. Well, I—

Q. (Interposing.) Constructed by you?

A. I find it in the definition of original cost.

Q. Which one is that?

A. That is shown on page 5.

TRIAL EXAMINER. That is the West Virginia Code?

The WITNESS. It is both West Virginia and the Federal Power Commission.

Mr. SLAFF. Page 5 of the West Virginia System of Accounts. The definitions are the same?

The WITNESS. Yes.

It says: "Original cost as applied to gas plant means the cost of such property to the person first devoting it to public service."

By Mr. SLAFF:

Q. What does definition 10 say?

A. "Cost means the amount of money actually paid for property or services or the cash value at the time of the transaction of any consideration other than money."

Q. Where is there any specific authorization in the System of Accounts for making estimates?

5120 A. Well, there is at some place here. It is at some place on pages 48 and 49, it is a long time since I have looked at this book.

Q. Do you mean Account Instruction 2 (C)?

A. On page 38 it says, "Original cost under gas plant purchased"——

Q. (Interposing.) I am speaking now of original cost of plant constructed by the company.

A. Well, in order to get——

Q. (Interposing.) As long as you understand, go ahead and answer.

A. The only way to get the original cost is to get the full cost of the property, and if the full cost was not reported in the Company's books, we had to estimate it. I thought that was in accordance with the definition of original cost.

Q. Well, I asked you, Mr. Antonelli, whether you found any specific authorization for estimating the original cost of plant constructed by the utility, in the Uniform System of Accounts?

* * *

5125 "Q. Well, I asked you, Mr. Antonelli, whether you found any specific authorization for estimating the original cost of plant constructed by the utility, in the Uniform System of Accounts?"

The WITNESS. You refer to property constructed by the Company?

By Mr. SLAFF:

Q. That is right.

A. I can't recall offhand. There might be something in the books, but I can't recall offhand as to property constructed by the Company, but it was evident that if I was attempting to get the complete costs of the property, and the amount of money the Company actually paid for this property, I had to do just what I did, and determine the full cost of these properties. There are no two ways about it, and that was my problem, to get the actual amount, the amount that the Company actually spent for these properties; and if I couldn't find the cost for certain negligible items, I estimated, and made my estimates based on Company costs.

Q. Well, it is a fact, is it not, Mr. Antonelli, that to the best of your knowledge there is no specific authorization in the System of Accounts for the estimating of costs of property constructed by the utility?

A. I don't know, I don't recall; I will have to refresh my memory about that.

Q. Will you do that and tell us?

5127 A. Yes.

Q. And it is a fact that as far as you know at this time, it is only with respect to the determination of original cost of property acquired as an operating unit or system that the estimating of such costs is permitted by the Uniform System of Accounts of the West Virginia Commission or of the Federal Power Commission, isn't that correct?

A. I don't know, I can't answer that question. I know that practically every company in the country making an original cost study, and not having the actual cost of the property constructed by the company, is using the same method I am using, and they had to estimate it, there is no other way to get it if it isn't on the books.

Q. In respect to this last answer of yours, do you mean that practically every utility company in the country, or most of them, that are making original cost studies, are following methods similar to yours?

A. They are trying to follow methods similar to ours, but some of those companies haven't got——

Q. (Interposing.) Which ones?

A. I can't mention companies; I don't know.

Q. Well, but you just told me that practically all of them were trying to follow the same methods that you have followed. Now would you please name five of those?

A. Well, I could not name five of those.

5128 Q. Can you name three?

A. No; I wouldn't like to mention any names.

Q. Don't be modest or reticent, Mr. Antonelli, this is a public record.

A. I do know——

Mr. MILDE (interposing.) That is just the point.

By Mr. SLAFF:

Q. It is a matter of public information, they all have to be filed with the Commission.

A. I know that they don't have the information.

Q. How do you know if you haven't investigated?

A. That is what they told me.

Q. Who told you?

A. Various men working on the jobs.

Q. What jobs?

A. Various jobs, original cost jobs.

Q. What original cost jobs?

A. Well, I am sorry, but I can't disclose names.

Q. Is it a confidential matter?

A. No; I am just giving you examples.

Q. Well, you haven't given us any examples, Mr. Antonelli, and I am asking you to name five of these original cost jobs that are being done where the same methods that you have used are being followed?

A. I said they were trying to follow.

5129 Q. That is right, where they are attempting to follow the same methods?

A. The Manufacturers Light & Heat Company is trying to follow the same methods, as far as I know now. It is hearsay evidence, because that is what they tell me they do. And the South Penn Oil, I think, is doing the same thing.

Q. Who else?

A. I thought some of the Philadelphia boys, the Philadelphia company.

Q. Is that the Pittsburgh Company?

A. Yes.

Q. Any others?

A. Well, I can't recall offhand.

Q. Are any of those jobs being done by Ford, Bacon & Davis?

A. No, sir.

Q. Now who told you, with respect to the Manufacturers job, that they were following generally the same methods that you followed?

A. Nobody told me, but I was down there examining some of the Company's records in regard to another matter, and I saw they were doing practically or approximately the same kind of work.

Q. And those three companies that you have named are all you can name at this time, is that right?

5130 A. Yes, sir.

Q. All right.

Now then, let's get back to the System of Accounts——

TRIAL EXAMINER (interposing). But you learned they were doing it this way before or after you did this job?

The WITNESS. Oh, after, way after. I mean, what they were doing is that they were analyzing vouchers and making unit costs, determining unit costs based on vouchers, and there was considerable estimating done because they didn't have the records. I have been to those companies in connection with other work, and I know they don't have records, and there is no way to get it from the company's records, except to estimate it.

By Mr. SLAFF:

Q. Mr. Antonelli, hasn't the Hope Company, ever since it has been under the regulation of the West Virginia Commission, been required to keep its books on the basis of cost?

A. I don't know, I can't tell you.

Q. Mr. Antonelli, do you mean to tell us you didn't investigate that before you began your original cost—call it determination?

A. It wasn't necessary. What I did was that I prepared an accurate inventory of the Company's properties; then I went to the Company's records, I didn't care what kind of records they were, I was trying to find the actual cost of each item, how much the Company paid for these items. We wrote to the various predecessor companies and got the costs from them, and so on. I didn't care how the Company kept it on their books or what they were doing, that wasn't my job, I had a lot of other things to worry about.

Q. Let's see, you worried about the present System of Accounts, because you made your original cost study, as you tell us, in accordance with that System of Accounts, is that right?

A. I followed the general accounting principles set forth in this Code of Accounts, yes. I used the same account numbers and tried to classify the properties in the same order.

Q. What distinction are you making between following the System of Accounts and following the same accounting principles as are set out in the System of Accounts?

A. Well, as I tried to tell you, I set up the properties, classified the properties in accordance with the investment accounts shown in this book, and then followed the principles as to material and labor and overheads.

It states here that you should include with the material, the labor, include its proportionate overhead and construction costs, and so on. I did all of that.

Q. Then you did follow, in making your original cost determination, the System of Accounts prescribed by the
5132 West Virginia Commission and prescribed by the Federal Power Commission, is that correct?

A. Yes, and also I followed the definition of original cost which says that the original cost is the full cost of the property.

Q. Well, let's see if I understand you. You didn't pick and choose out of the System of Accounts as to what you were to follow and what you were to disregard, is that correct?

A. Well, what I did—

Q. (Interposing.) No, Mr. Antonelli—

Mr. MILDE (interposing). Let him explain.

By Mr. SLAFF:

Q. Let me repeat my question, and you tell me whether you can answer it yes or no. Did you pick and choose out of the System of Accounts, certain parts thereof that you would follow, and certain parts that you would disregard?

A. No, sir.

Q. Now let's get to the next question.

A. Well, I would like to qualify my answer now.

Q. Go ahead and qualify it if you want to tell us you did pick and choose.

A. What I did, my first purpose was to determine the original cost, the full original cost of these properties.

5133 TRIAL EXAMINER. Regardless of what the System of Accounts said?

The WITNESS. That is right. I was asked to find out, to go to all records and everywhere and get the actual cost of these properties, how much money this company spent for these properties, and how much the predecessors paid for prior utilities. That was my first purpose.

Then I went to this System of Accounts and said—we are going to use this original cost for other purposes, setting up the books, maybe, in another form.

So in order to help, at least utilize part of this work for other purposes, we set it up using this Code of Accounts shown in here, and classified the property in accordance with this Code of Accounts, and included each item of equipment, each proportion of the installation cost and overheads, and so on.

That was all necessary for setting up the continuing property records. So I could kill two birds at the same time.

TRIAL EXAMINER. In other words, you first decided, irrespective of the System of Accounts, how much you wanted to set up, and then you used the System of Accounts so far as practicable in splitting it up and setting it up; is that the effect of your statement?

The **WITNESS.** Well, in effect, that is correct. My first reason was to get the original cost of these properties.

5134

By **Mr. SLAFF:**

Q. Then it is a fact, is it, that in your original cost determination, as you ultimately came to it, you did disregard certain of the portions of the Uniform System of Accounts prescribed by the West Virginia and the Federal Power Commissions?

A. Well, I think there is just one paragraph here where it says about not intended to estimate. I didn't pay much attention to that because it just didn't mean anything to me. How could you determine original cost if you couldn't estimate? It just couldn't be done. If you had to get the total original cost, you had to estimate.

Q. In other words, are you referring to Utility Plant Instruction 2 (B) which states that the cost of the utility of its utility plant shall be ascertained by analysis of the utility's records?

A. Yes.

Q. That instruction in the System of Accounts you disregarded; isn't that correct?

A. Where is that?

Q. At page 48 of the West Virginia Code of Accounts and page 37 of the Federal Power Commission Uniform System of Accounts.

A. Yes; that is right.

Mr. SLAFF. Read the question and the answer, will you, **Mr. Reporter?**

5135 (The record was read by the reporter.)

Mr. MILDE. I wonder if you won't be fair to the witness and tell him whether you mean all of Instruction 2 (B) or one sentence of it, or what?

Mr. SLAFF. Instruction 2 (B). If he wants to qualify it, let him go ahead and qualify it. He is perfectly able at qualifying, as he has demonstrated this morning.

Do you want to qualify your answer, **Mr. Antonelli?**

The **WITNESS.** There isn't anything to qualify. I said I determined the original cost of these properties, and I followed

this Code of Accounts as much as possible, except that I estimated all of the items that I couldn't find in the Company's books or expensed.

* * *

5136 PETER ANTONELLI resumed the stand and testified further as follows:

The WITNESS. Before we start, I would like to make a correction here to your last question.

Mr. SLAFF. Go ahead.

The WITNESS. You asked me if I had disregarded Instruction 2-B in this new code of accounts and I would like to make it clear that the only portion that was disregarded is the last sentence starting with "It is likewise not intended that adjustments shall be made," and so on.

Cross-examination (cont'd) by Mr. SLAFF:

Q. Well, then, you did pick and choose as to what parts of the system of accounts you would follow and what part of this system you would not follow. Is that right?

A. Well, I determined the original cost.

Q. No, no that isn't the question I asked you, Mr. Antonelli. The question I asked you is this: It is a fact, is it not, that you did pick and choose as to what part of the system of accounts you would follow and what part or parts you would disregard?

A. Well, the only part that I disregarded is the
5137 part that I just mentioned.

Q. And that was a deliberate policy of disregarding that portion of the system of accounts. Is that right?

A. Well, if I hadn't done that, I couldn't have determined the original cost correctly.

Q. That is not the question, Mr. Antonelli. The question is this: Your disregard of that portion of the system of accounts was a deliberate policy adopted by you in making your determinations. Isn't that so?

A. Well, I disregarded that part; yes.

Q. Well, then, it was a deliberate policy which you adopted —

A. It wasn't a policy.

Q. Just a minute. In making your determination was it not?

A. Well, I will say yes, then.

Mr. MULDE. Mr. Slaff, Mr. Antonelli can report on those questions that you asked him to get at noon.

By Mr. SLAFF:

Q. I think we might get that into the record now, if you have the information.

A. Where are the large books?

(Document furnished witness.)

By Mr. SLAFF:

Q. Have you during the noon recess, Mr. Antonelli,
5138 checked certain matters which were discussed this morning
and which you now wish to report on? If so, will you
go ahead?

A. Yes, I did. Now, in connection with Account 353, Mains, you asked me in reference to the first item pertaining to Line H-2, \$219.60. You asked me as to when those charges occurred and what account they were charged to. The charges occurred in 1902 and 1903 and were charged to Account 11 and Account 14.

Q. And what are Accounts 11 and 14?

A. Well, 11 is conduct. It is named "Conducting-Maintenance" and 14 is "Conducting-Telephone."

Q. Did you say "conducting"—

A. (Interposing.) Conducting, c-o-n-d-u-c-t-i-n-g, conducting.

Q. Does that mean operating, maintenance?

A. Yes.

Trial EXAMINER. Those are West Virginia account numbers, are they?

The WITNESS. These are company accounts, that is way back in 1902 and '3.

Mr. MILDE. There weren't any West Virginia account numbers until 1923.

The WITNESS. The next one was in connection with the next item, Line H-2, showing \$18,323.64.

5139 Mr. MILDE. What page is that on?

The WITNESS. Page 356.

That charge occurred in 1906 and it was charged to Account No. 2.

By Mr. SLAFF:

Q. And what was that account?

A. Repairs to Line. The next item is in connection with 639 feet of 18-inch pipe in Line H-2 amounting to \$1,245.10.

Mr. MILDE. You mean the construction cost?

The WITNESS. The construction cost—I was coming to it—of 639,000 feet of 18-inch pipe.

By Mr. SLAFF:

Q. How many feet?

A. Six hundred thirty-nine feet. Of this footage 316 feet were constructed in 1937 and 323 feet in 1938. No cost was found on the company records.

Q. No cost for what was found?

A. For the construction of these 639 feet.

Q. Yes; and to what account?

A. I don't know. I had to estimate it.

Q. I see. That \$1,245.10, then, is an estimated cost, not a voucher cost. Is that right?

A. That is correct, yes.

Q. All right.

5140 A. The next amount is in regard to \$9,673.62. That is for the construction of river crossing that took place in 1919 and it was charged to Account 21-D and 23-B.

Q. 21-D?

A. And 23-B.

Q. 21-D is maintenance of transmission line equipment. Is that right?

A. Well, it is marked "Dredging."

Q. Well, what does the account cover?

A. As far as I can determine it just says "Dredging."

Q. Well, is it a subaccount of any other account?

A. It is a maintenance account.

Q. Yes. And what about 23-B? What is that?

A. Well, it is called "Labor"; again maintenance, transmission and labor.

Mr. MILDE. I thought you said that figure was 1929. Did you read it 1919?

The WITNESS. Did I say 1919?

Mr. SLAFF. You did.

The WITNESS. I am sorry, it is 1929.

The next item shown on page 357 pertains to the claims on Pipeline H-2 and the amount of \$15,638.63. This charge occurred in 1906 and it appears under Account No. 2, "Repairs to Line."

By Mr. SLAFF:

5141 Q. I think that covers what you are requested to furnish with respect to Account No. 353, does it not?

A. Yes, sir.

Q. Is there anything else you have to report on now?

A. Yes, sir; in connection with one of the structures that appears at page 73, I think.

Mr. MILDE. What page?

The WITNESS. Page 73. That was in connection with Building 9,060.

By Mr. SLAFF:

Q. That is right.

A. I looked up this building in my original costs and I have this original cost determination book in front of me and the charge to that building was not included in the Federal Power Examiner's Exhibit 57.

Q. May we have your work book that you are looking at now, please?

A. Do you want to see it?

Q. Yes.

(Book furnished Commission's counsel.)

By Mr. SLAFF:

Q. Your work book shows, does it not, for that building, cost capitalized for company's books of \$325.51?

A. It shows the amount of \$325.51 under the cost capitalized by the company. Now, that particular item is only a inventory item. In other words, it is shown on their inventory voucher M-181-1920, which was a reclassification voucher in 1920 and it does not pertain to this particular building at all, we had to throw it out. We just disregarded this voucher because the cost shown on the books for this item is not the cost of this particular building.

Q. The problem now, Mr. Antonelli, is not whether you disregarded the \$325.51, which your book shows as cost capitalized for that storage shed No. 9060, but whether, as you stated this morning, the Federal Power Commission examiners disregarded that amount.

A. Yes; they did because they accepted our adjusted book cost of a structural account and that as you notice there is zero adjustment for that particular building.

Mr. MILDE. You mean adjustment to zero?

The WITNESS. To zero; yes.

By Mr. SLAFF:

Q. On what journal entry did the Federal Power Commission examiners take that \$325.51 out?

A. Well, I can't tell that, but I know that the adjusted book cost as shown by the Federal Power Commission is the same as ours. In other words, the \$1,800,000 that they allowed us is the same figure as we had.

Q. Now then, did you make any determination with respect to this specific item and the \$325.51 which was cost capitalized
5143 on your company's books for that storage shed as to whether or not the Federal Power Commission examiners did exclude that amount?

A. I did not have to make such a determination; no sir.

Q. You mean you arrived at a conclusion, then, that they had excluded that amount without making any specific determination with respect to it. Is that correct?

A. Well, they must have, they accepted, by adjustment.

Mr. SLAFF. Will you repeat the question, please?

(Whereupon, the last question was read by the reporter.)

The WITNESS. Yes.

By Mr. SLAFF:

Q. Now, where is the adjustment with respect to this item of \$325.51?

A. Whose adjustment?

Q. Did you make any adjustment with respect to it?

A. Oh, I don't understand what you have in mind, what adjustment?

Q. You have stated, have you not, that this \$325.51 was excluded by the Federal Power Commission examiners. Is that right?

A. They must have excluded it, if they accepted our adjustments.

Q. Now, was it stated in your working papers as "Cost capitalized per company books"?

5144 A. Will you repeat the question?

Q. Yes; was it stated in your working papers as "Cost capitalized per company's books."

A. Yes, sir.

Q. And do you know whether or not the Federal Power Commission examiners accepted that amount as cost capitalized per company's books?

A. I know that they did not accept that amount as cost capitalized per company's books because they accepted our adjusted book costs as I determined them.

Q. What adjusted book cost of yours did they accept?

A. They accepted the \$1,800,000 adjustments made for property constructed by the company or purchased from other utilities.

Q. Were those your inventory adjustments?

A. They were all kinds of adjustments.

Q. And you say included within that adjustment was this amount of \$325.51?

A. I assume so; yes.

Q. Well, don't you know?

A. Well, no; I don't know what the Commission——

Q. (Interposing.) Well, is all your testimony as to what they excluded with respect to this item pure assumption?

A. No; it is a fact that they accepted all of our adjustments.

5145 Q. Well now, is this specific item included in that adjustment?

A. Well, I will have to look up the working papers and I will let you know.

Q. All right, look that up, if you please.

A. All right.

Q. Now, do you have any other matters that you wish to report on?

A. That is all I have at the time being.

Q. Now then, returning to the matter of estimates of original cost which you made and particularly with respect to estimates of labor cost, you testified this morning, as I recollect, that you developed certain performance rates. Is that correct?

A. For certain billing of structure accounts.

Q. Yes, now on what basis did you determine those performances?

A. Well, I already explained that this morning.

Q. Well, as I understand your explanation, it was some kind of engineers' estimates of performance. I am trying to get the specific basis for those performances.

A. Will you explain the question a little clearer, please? I don't understand it.

Q. Surely. I will be glad to. You say you developed cer-
5146 tain rates of performance for different kinds of work. That is correct?

A. Yes.

Q. Now, what I am trying to get from you is from what underlying data you developed those rates of performance. Was a study

made of other companies, studies made of performances at other times, and so on?

A. Well, there are so many questions in the question you ask me. What do you mean by "rates," first?

Q. Well, all right. Let's take any specific item for which you developed performance rates. Did you develop performance rates in connection with the work, the construction work shown on page 72? Let us go back to that.

A. Yes, sir; I did.

Q. You did. All right. Now, for what items, with respect to the first item shown under the "Office and Warehouse, No. 9001," did you develop performance records?

A. I developed performance rates for the portion pertaining to the construction cost of the items that were not allowed by the Commission in connection with this office and warehouse building.

Q. All right, let's see if we can get that a little more specific on the record. Did you develop performance rates for installation of concrete work, a concrete block wall?

A. Yes, sir; I did.

5147 Q. Performance rates for plaster boarding?

A. Yes.

Q. For installing plumbing fixtures?

A. Yes, sir.

Q. And for installing electric lights?

A. Yes, sir.

Q. All right, and similarly for other work you also developed performance records?

A. Yes, sir.

Q. Now that, Mr. Antonelli, is what I mean by performance rates that I have been talking about. Now will you tell us from what underlying data you developed those performance records?

A. The performances as far as the time required to construct these items, I am talking about the hours and so on, were based on information that Ford, Bacon & Davis has in their files. Now, to these performances we apply labor aids which came from the Hope pay rolls named "Pay Roll Vouchers."

Q. Just on the performances?

A. I am not through yet. Now is the part where we deviate. Now, that was the first job that I did. Then I listed the cost of three compressing stations and I was certain that the cost as far as construction cost is concerned was complete.

5148 I also had the quantities of materials that went in this compressing station structure. I applied this performance that I just described to the figures of these three compression station structures and I obtained a total and I divided this total into the total construction cost, actual construction cost, of these stations and I found out that I had to increase these performances that I have just described and cost that I have just described 25 percent together in line with what were the actual performances in cost of Hope Company.

Q. Well now, where did Ford, Bacon & Davis get the underlying data from which you developed your first performance rate?

A. It doesn't make any difference, I could have done it from any—

Q. (Interposing.) It does make a lot of difference, Mr. Antonelli. Now will you tell us where Ford, Bacon & Davis got those performance rates?

A. They got that from their experience. They have all kinds of construction work. It is their own, Ford, Bacon & Davis, experience.

Q. Now what is that supposed to represent? Is that supposed to represent the average construction experience on jobs done or supervised by Ford, Bacon & Davis?

5149 A. No, sir; it is general average performances used for constructing structures and buildings.

Now that was adjusted upwards or downwards to conform with actual performances to various jobs that we do. In this case we had to adjust it 25 percent to get it to the performance of Hope Natural Gas Company.

Q. Yes; so you have told us several times, but we are not up to the point of adjustment yet, Mr. Antonelli. Have no fear, we will come to it.

Now, before we get to that point I want to know from what specific data Ford, Bacon & Davis develops its performance rate.

A. Well, that is from their own experience in connection with other work that they have done, actual construction work they have done.

Q. Then, that is the actual rate of performance on other actual construction work done or supervised by Ford, Bacon & Davis. Is that correct?

A. Yes; large jobs—very large jobs—and it might be in a different part of the country; I don't know. It doesn't apply in that case to the Hope construction.

Q. Well, do you know where or what job, from what jobs those were developed?

A. No, sir; I don't.

Q. I see. Then as far as Hope's construction was concerned, it is piecemeal construction, if you please, that was
5150 by way of performance, at least, 25 percent less efficient than the performance that Ford, Bacon & Davis had observed in jobs which it had done or supervised. Is that correct?

A. No.

Q. It is not correct?

A. No, sir.

Q. For the Ford, Bacon & Davis rates were, you told me, developed from actual jobs?

A. Rates, I didn't mention anything about rates.

Q. The performance rates.

A. Oh, excuse me.

Q. The performance rates were developed from actual jobs done or supervised by Ford, Bacon & Davis. Is that correct?

A. Well, they were based on the experience of actual jobs.

Q. Well, when you say they were based on the experience of actual jobs, don't you mean that those were the actual performances on those jobs as determined by Ford, Bacon & Davis?

A. Well, I will explain it. Now, we have in our office a department called "Valuation and Report Department" and we do a great deal of reproduction cost evaluation work, so we try to get our valuation work and the production cost figures
5151 as accurate as possible, as efficient as possible, as easy as possible and as fast as possible, so in the case of buildings, taking into consideration all the experience from our engineering department, we set up formulas for how much we will install in how many hours, say, it will take a bricklayer to lay a thousand bricks. It is set up in such a way that it can be varied up or down on individual jobs and location of the job.

Q. Now, how is it developed, Mr. Antonelli? That is the question which I have asked you and I am still trying to get an answer. Aren't the rates of performance which you have developed in your valuation department based upon actual performance observed by Ford, Bacon & Davis in jobs which it has done or supervised?

A. It is based on the experience of Ford, Bacon & Davis from actual jobs.

Q. All right. Now that experience from actual jobs consisted in recording actual performances in those actual jobs. Is that correct?

A. Many actual jobs, not one, but many actual jobs, yes.

Q. Is that correct?

A. That is correct.

Q. So then, the performance rates, which you have developed in your office files, are then the actual rates of
5152 performance on jobs done or supervised by Ford, Bacon & Davis. Is that not so?

A. No, sir. No, sir; I say they were based on the experience of Ford, Bacon & Davis, that they got from these actual jobs, but it wasn't based on one job or any particular job.

Q. Mr. Antonelli, I haven't confined any single one of my questions—perhaps you don't understand properly—to any one job done by Ford, Bacon & Davis or to any specific job done or supervised. Now, will you listen carefully to the question, please, and see if you can answer it?

A. All right.

Q. Is it not a fact that the performance rates developed by Ford, Bacon & Davis are the rates of performance found by Ford, Bacon & Davis to exist on many jobs which it has supervised or done?

A. It doesn't apply to any particular job.

TRIAL EXAMINER. Will you read the question again, please?
(Whereupon, the preceding question was read by the reporter.)
The WITNESS. I want to stress that fact.

By Mr. SLAFF:

Q. I think we understand that part, will you read the question?
(Whereupon, the preceding question was read by the
5153 reporter.)

The WITNESS. I will say yes.

By Mr. SLAFF:

Q. All right, those are rates which exist over a wide spread of jobs that your firm has supervised or developed, as I understand?

A. Well, I want to make sure that it doesn't apply to any particular job.

Q. Well, would you call them average performance rates?

A. Average normal rates; yes.

Q. That is the actual, the average normal actual rates of performance that exist, that have been found by you, by your firm, to exist over many jobs? Correct?

A. That is right.

Q. Now, is it not a fact that the performance of the Hope Company, as determined by you, was at least 25 percent less efficient than these average normal actual rates of performance found by Ford, Bacon & Davis to exist in these many other jobs?

A. No, sir. Not efficient. You said efficient. I wouldn't say that. They were less because of the holding conditions and the type of country and the fact that usually Ford, Bacon & Davis' performances are based on union men, union labor, while
5154 here the company could not get a very good man to properly locate it in remote places and it would be hard to attract real first-class carpenters or bricklayers. That is the main difference that makes the difference of 25 percent in cost. Another thing, this labor is here.

Q. Is what?

A. I mean the non-union labor rates are a little lower.

Q. Are you speaking of the rates of wage now?

A. Yes, wage.

Q. We are not at this time, you understand, discussing wage rates, Mr. Antonelli. We are simply discussing performances.

A. Yes.

Q. Well then, to put it another way, if I withdraw the word "efficient," to do the same work in the Hope Company, it took 25 percent more labor than to do the work for various units as developed by Ford, Bacon & Davis?

A. It took them 25 percent more time, because, as I said, the stations are located in remote places and it takes longer to get there and to come back again. I am not talking about present conditions, I am talking way back in the history of the company, the roads were not so good and it really did take a longer time to construct this building than the performances used by Ford, Bacon & Davis for up-to-date type of construction work.

5155 Now, you say you compared the performance rates developed by Ford, Bacon & Davis with the actual rates of performance found in the three buildings of the Hope Company, is that correct?

A. No, sir.

Q. Well, tell us how this comparison of Ford, Bacon & Davis performance was made with company performance to bring about the 25 percent adjustment.

A. Well, I have repeated that four times now, but first of all we applied to those performances the labor aids of Hope as to the day of constructing these three compressing stations, total compressing stations, and priced them, using these performances with the Hope labor aids and we obtained a total. Then we knew the total cost of these stations. I am referring now to structures again.

Now, we divided one by the other. We found that the actual cost was 25 percent higher than using this hypothetical performance.

Q. So from that you deduced that the performance rates developed by Ford, Bacon & Davis were higher by 25 percent than the actual performance rates which had gone into the construction of these three compressor station structures?

A. Not compressing station structures, I am talking about 5156 compressing stations, one at Cornwell, which was a large station, and another was—I will get the names of those stations.

Q. I wish you would, please.

A. Cornwell, Payne and Minnora.

Q. When was Cornwell—is that Cornwell or Cornwall?

A. Cornwell, C-o-r-n-w-e-l-l.

Q. Yes, when was that constructed?

A. I will have to look it up. I think in 1925. I am not quite certain.

Q. What about Payne?

A. Well, I will have to look them up. I don't remember offhand.

Q. Were any of these three stations constructed prior to 1920?

A. I am not certain, I will have to look it up.

Q. Do you have that information here?

A. No; I haven't.

Q. Now then, turning to your Account 353, "Mains," you said with respect to that this morning, if I remember your testimony correctly, that out of a total of some \$102,000 summation on page 357, you had specific voucher references for some \$58,000 and for \$44,000 of construction cost you had no specific voucher references, but had estimated those costs. Is that correct?

5157 A. Yes, sir; that is correct.

Q. Now, those estimates were developed as the cost of similar construction for the same period. Is that it?

A. We summarized the costs of all transmission lines by size and kind by periods for which we knew the actual cost of construction, the actual amount paid by the company for constructing those lines and we obtained the cost per foot for each size and kind of pipe and that cost per foot was the one that was used in case of the items appearing on pages 356 and 357. It is the actual cost, no estimates at all, the actual cost for constructing similar lines at about the same time and the same kind of pipe.

Q. Well, costs of other construction, of course. That is correct, is it not?

A. The cost of constructing transmission lines; yes.

Q. Not these specific lines?

A. Oh, no; if I had the costs I wouldn't have to estimate it.

Q. Now, Mr. Antonelli, can you tell us which takes more time, abstracting a lease or abstracting a deed?

A. Will you read the question?

(Whereupon, the pending question was read by the reporter.)

The WITNESS. Well, I would say it all depends on the deed
5158 or it all depends on the lease, I can't answer that question offhand.

By Mr. SLAFF:

Q. No; on the average?

A. I don't know, I can't answer that question offhand.

Q. You mean you are just not prepared to answer it. Is that correct?

A. Yes, sir.

Q. All right. Now, turning for a minute to your first account shown in this Exhibit 60, Account No. 330-1, where were the expenses in connection with the items there set out originally charged? Do you know?

A. They were charged to operations.

Q. And beginning right at the beginning with this account you there disregarded the Instruction 2-B of the system of accounts or at least so much of it as states that "It is, likewise, not intended that adjustments shall be made to record in utility plant accounts amounts previously charged to operating expenses in accordance with the uniform system of accounts in effect at the time or in accordance with the discretion of management as exercised under such uniform system of accounts." That is correct, is it not?

A. Yes; I disregarded the last sentence; yes.

Q. Yes. Now, with respect to your Account 330-2, natural
5159 gas-producing leaseholds operated and unoperated, what is
the situation with respect to the expenses in connection with
those items?

A. Well, what do you mean by "the situation"?

Q. Well, were any items there previously charged to operating
expenses or not?

A. I think they were.

Q. Do you know?

A. Well, I know the abstracting cost was charged to operation;
yes, sir.

Q. And what about the other costs?

A. I don't know.

Q. What was the answer?

A. I say I can't answer.

Q. Now, with respect to Account No. 330-2, unoperated lease-
holds, was any amount allowed by the Federal Power Commission
examiners as consideration cost as far as the entire account was
concerned?

A. I think that the Federal Power Commission included the
unoperated leaseholds in Account 100-4.

Q. Well, was any amount included in that account as represent-
ing consideration cost for such unoperated leaseholds?

A. Included where?

Q. By the Federal Power Commission examiners.

A. I know, but where?

5160 Q. As part of the original cost of the property.

A. You mean as part of the \$51,000,000 adjusted book
cost?

Q. As part of the original cost of that property as determined
by the Federal Power Commission examiners.

A. Original cost—I didn't know they had any original cost.

Q. Oh, Mr. Antonelli, quit stalling, will you?

A. No, I am sincere about it. Are you talking about the
\$51,000,000 or are you talking about the items that were ad-
justed out?

TRIAL EXAMINER. Whatever we have been talking about all
the time.

The WITNESS. No; there are two things in there. We are
talking about a \$51,000,000 adjusted book cost that we have and
they allowed some other items that they adjusted out.

By Mr. SLAFF:

Q. All right, let's get it this way just so you won't have any problems as to what we mean by the question. Did you inventory the leases, unoperated leases?

A. Did I inventory?

Q. Yes.

A. I obtained these lists from the company's records and made sure that they were in existence as of December 31, 1938, 5161 that, in effect, is an inventory of the unoperated leases as of December 31, 1938.

Q. And did you make a detailed list of each and every one of those?

A. Yes, sir; I did.

Q. Now, then, did you make any adjustment to the book cost as shown on the company's books of those leases?

A. We determined the original cost of those leases and, of course, the difference between the book cost and the original cost was the adjustment.

Q. Did you add an amount of \$104,811 to the cost shown on the company's books for those leases?

A. Excuse me, I will have to get my papers.

Q. Please do.

Mr. MILDE. Mr. Examiner, on your point, when Mr. Antonelli is talking about the \$51,000,000 he means the plant accounts including the operated leases, because the Federal Power Commission examiners in their \$51,000,000 figure didn't include unoperated leases but had transferred those to Account 100-4. That may have caused some confusion and I thought I would clarify that.

Mr. SPRINGER. That is plant held for future use?

Mr. MILDE. Yes; and they have treated that another way with some interest.

The WITNESS. Yes; I did. Excuse me, repeat the question, please. 5162

(Whereupon, the pending question was read by the reporter.)

The WITNESS. I would like to put it the other way. My original cost was \$104,000 over and above the book cost. All right.

By Mr. SLAFF:

Q. That may be a different—I don't know the distinction, but it is all right.

A. Well, I determined the original cost and at the same time my purpose of showing the book cost was to show the relation between original cost and book cost.

Q. Where was that \$104,811 determined? How was that determined?

A. That was determined in the same manner as we determined the original cost of the operated leases.

Q. And how was that?

A. By going to the company records and finding the costs of the first lease.

Q. And you had specific vouchers then—

A. (Interposing.) Excuse me.

Q. I beg your pardon, I thought you had completed.

A. The first lease by examining the vouchers and making certain that those were the costs for each lease that we have included in the original cost.

5163 Q. And you found specific vouchers for each and every lease which went in to make up that total of \$104,811.

Is that correct?

A. Yes, sir.

Q. And that amount was included by Federal Power Commission examiners in their determination of the original cost of gas plant, was it not?

A. It was not included in the adjusted book costs of \$51,000,000. It was included as adjustments under Account 100-4, property held for future use.

Q. Well, it is in the total of the gas plant, the original cost of the gas plant as found by the Federal Power Commission examiners, is it not?

A. Not in the \$51,000,000 that we are talking about.

Q. The \$51,000,000, Mr. Antonelli, refers to the gas plant in service, does it not?

A. That is right.

Q. There is another gas plant of the company, is there not?

A. Yes, sir.

Q. That is gas plant held for future use. Is that not so?

A. That is correct; yes, sir.

Q. So that all the gas plant of the company is composed
5164 generally of two components, gas plant in service and gas plant held for future service. That is correct, is it not?

A. That is correct; yes.

Q. Now, in the total of gas plant, the Federal Power Commission examiners allowed this amount of \$104,811 for consideration cost for leases unoperated, did they?

A. Yes, they did and classified it as property held for future use.

Q. And for those considerations you had specific vouchers, did you? Is that correct?

A. Yes, sir; I did.

Q. Did you have specific vouchers for showing the consideration for the other leases unoperated from which you derive a total of \$4,088 as consideration cost?

A. Will you read the question.

(Whereupon, the pending question was read by the reporter.)

By Mr. SLAFF:-

Q. Let me withdraw that question so it will be a little clearer on the record.

You have stated, have you not, that the total of \$71,591 shown on page 62 was made up of abstracting; obtaining, recording, consideration and miscellaneous costs? Is that right?

A. Yes.

5165 Q. And within that total is \$4,088 for consideration costs, is that correct?

A. That is correct.

Q. Now then, the question which I put to you earlier, do you have specific voucher references for the consideration costs going in to make up that total of \$4,088?

A. No, sir; I do not have specific vouchers for this amount.

Q. Now, to what leases are those dollars applicable?

A. I have the information, but they are not available at the moment. I have them in my working papers.

Q. Now, how did you develop that total of \$4,088?

A. It was based on the consideration of other leases acquired from the same county and I believe the same years as the leases, but we did not have the cost, the leases that make this \$4,000.

Q. Now, how did you know that consideration was paid for these particular leases?

A. Oh, we have information in the files which shows that consideration was paid.

Q. It didn't show the consideration, however, is that right?

A. The consideration was expensed and I could not obtain the actual cost so it was necessary to estimate.

5166 Q. Now then, with respect to these leases, you say the consideration was expensed but you have no voucher references for them. Is that right?

A. Yes.

Q. Now, you have a list, do you, of the specific leases?

A. I could produce a list of these specific leases; yes, sir.

Q. To what expense account were those costs charged, do you know?

A. No, sir; I do not.

Q. Well, how do you know they were expenses?

A. As far as I recall, my working papers show that they were expensed.

Q. Do your working papers show the account to which they were expensed?

A. Well, I will have to refer to my working papers to answer that question. I can't tell offhand.

Q. All right, will you do that?

A. Yes, sir.

* * *

5167 By Mr. SLAFF:

Q. Now, Mr. Antonelli, I don't know whether we have specifically covered it or not, but the cost which you used for abstracting cost in Account 330-1 was an estimated cost, is that correct? That is at page 2 of your Exhibit 60.

A. The abstracting cost was not an estimated cost, it was based on vouchers and was supported by vouchers.

Q. Well, what vouchers?

A. Hundreds of vouchers.

Q. Well, it was an estimated cost, estimated from hundreds of vouchers for this specific abstracting of Deed No. 46,404?

A. No, sir; I explained yesterday, and I will explain it again, that the Company never kept the cost of each abstracting separately. Therefore, it was necessary for me to total all of the abstracting costs and divide it by the number of abstracts, to get an average cost.

5168 It is an allocated price, an allocated cost, and I did that for various periods, but it was supported by vouchers, and we have the vouchers, and I can tell you the name of the man that did the abstracting, and the date he did it, and how much money he spent for expense in connection with the abstracting, and his salary, and everything else.

Q. You can tell us the name of the man who abstracted Deed No. 46,404?

A. Absolutely, I have it right in front of me.

Q. What is his name?

A. C. S. Weaver.

Q. And how much time did he spent on abstracting Deed No. 46,404?

A. Well, I couldn't tell you that, but I can tell you how much he spent in total amount.

Q. No, we are confining ourselves to Deed No. 46,404, shown on page 2, and you arrived, did you not, at an abstracting cost in connection with that particular deed, of \$47.40?

A. The \$47.40 is the average allocated actual cost for abstracting for the period that this deed was acquired.

Q. Now we are confining ourselves to Deed No. 46,404. You used, in your Exhibit No. 60, at page 2, in columns 2 and 6, an abstracting cost of \$47.40 for that specific deed; isn't that so?

A. Yes, sir; I did.

Q. Now do you know what the specific cost of abstracting that specific deed was?

A. I might surprise you and find it, because I think I have it. It is more than \$47 —

Q. (Interposing.) Oh, Mr. Antonelli, do you know what the specific costs of abstracting that specific deed No. 46,404 were? Do you know or don't you?

A. I don't, because the Company did not keep records of the specific costs for each abstracting.

Q. All right.

Now then, your amount of \$47.40, as the cost of abstracting used by you, as the cost of abstracting that specific deed, is an estimate derived from costs of abstracting a number of deeds, is it not?

A. No; sir.

Q. Are you caviling or do you have objection to the term "estimate"; is that it?

A. No; it is an allocated actual cost of the deeds and leases that have been abstracted. It cost the Company so much, per year to abstract leases, and they had so many leases abstracted. By dividing the number of leases into the cost, I got the average cost; and that was the only practical way to get it and get done in time.

Q. Mr. Antonelli, isn't an average cost an estimated cost, what is the difference?

A. Oh, not at all.

5170 Q. Well, then, it is the term "estimated" that you were objecting to; is that right?

A. Yes, sir. I know that this cost of \$47.40 is actual cost incurred by the Company in abstracting.

Q. How much time did it take Mr. Doakes to abstract that specific lease or deed?

Mr. WILDE. Weaver was the name.

The WITNESS. Judging from the amount, he probably spent 5 or 6 or 7 days.

By Mr. SLAFF:

Q. Do you know?

A. Sure I know. I know his salary, and judging from that he probably did spend that much time, and that is the average time it takes to abstract leases and deeds.

Q. Now getting away from averages, Mr. Antonelli, do you know the specific amount of time that Mr. Weaver was engaged in abstracting Deed No. 46,404; do you or don't you?

A. No; I said no; no, sir; I don't.

Q. Then you don't know what the cost to the Company of abstracting this one deed was?

Mr. MILDE. I object to the question. It has been asked and answered twice before.

Mr. SLAFF. Well, it may have been asked several times before, but I don't know whether it has been answered.

TRIAL EXAMINER. Let him answer it again.

5171 The WITNESS. No; I don't, and I would like to qualify my answer by saying I don't know because the Company did not keep separate the costs incurred in connection with abstracting; but I do know the actual average allocated price for abstracting.

By Mr. SLAFF:

Q. And that is what this \$47.40 is, your conception of the average allocated cost—right?

A. Yes, sir; and this isn't any different than the pipe lines, or anything else.

For instance, the pipe line might have had, say, 1,000 feet, and later on we find out that the line is only 500 feet. Say we find out as of December 31, 1938, that we only had 500 feet. Therefore, we allocate the cost of the 1,000 feet to the 500 feet.

Q. And that you——

Mr. MILDE (interposing). You mean you wrote that out?

The WITNESS. Well, we wrote out the 500 feet.

TRIAL EXAMINER. You wouldn't call that an estimated cost?

The WITNESS. No, that is an actual cost, only half of the line was gone.

By Mr. SLAFF:

Q. You did make estimates in connection with this Exhibit 60, did you not?

5172 A. Yes, sir; I did.

Q. But these costs you consider outside of the category of estimates; and these are not estimates, but average allocated costs, is that right?

A. You refer to abstracting now?

Q. Yes.

A. The abstracting I consider actual costs.

Q. Average allocated actual costs would be a complete statement—right?

A. Yes.

Q. Does that also apply with respect to leaseholds, Account 330-2?

A. Yes, sir; it does.

Q. Now did you obtain your average allocated cost for abstracting leases in generally the same manner that you obtained it for abstracting deeds?

A. Yes, sir.

Q. That is to say, for each year you took the number of leases abstracted, the number of men who worked on abstracting leases for the Company, their salaries, and divided the amount of dollars paid by the number of leases they abstracted; is that it?

A. Yes; and sometimes, and for some years, the Company had abstracting done by outsiders. In that case we will show the total cost of abstracting, lease by lease.

5173 Q. And again, you would not consider that you had estimated the cost of abstracting any of these leases?

A. No, sir.

Q. Now with respect to Account No. 330-5, Other Land and Land Rights, were your abstracting costs developed in the same manner as we have discussed with respect to the other two accounts?

A. Yes, sir; that is true with all the land and lease accounts.

Q. Will you tell me whether Ford, Bacon & Davis made a labor performance study of the construction in connection with the Hope property in 1929?

Mr. MILDE. I object to that. It is not relevant to any question in this case.

TRIAL EXAMINER. I can't see the relevance just at present.

Mr. SLAFF. If it is not developed as relevant, it will be subject to a motion to strike.

Mr. MILDE. I think we might have a statement by counsel as to how he expects to make it relevant.

Mr. SLAFF. At this point I prefer not to make such a statement.

TRIAL EXAMINER. All right, you may reserve the right to move to strike if it isn't properly developed. The objection is overruled.

Mr. MILDE. Note an exception.

5174 The WITNESS. Ford, Bacon & Davis, in their valuation of the Hope properties as of 1929, priced in detail all of the compressing stations and other structures, and I presume they developed unit costs, similar unit costs to those that I have referred to this afternoon.

By Mr. SLAFF:

Q. Getting away from your presumption, Mr. Antonelli, do you know whether they developed such unit costs?

Mr. MILDE. I object, on the same grounds.

TRIAL EXAMINER. The objection is overruled.

Mr. MILDE. Note an exception.

The WITNESS. I don't know offhand, no, sir.

By Mr. SLAFF:

Q. In your original cost determination in this case, did you make any investigation to determine whether, in 1929 or thereabouts, Ford, Bacon & Davis had developed any unit costs and performance rates for the Hope properties?

A. Yes, I did.

Q. And what did you find?

A. Well, I can't recall offhand. I will refer to my papers and let you know.

Q. Well, where is that contained in your papers?

A. Oh, it is contained in the 80,000 pages that we have in connection with this original cost determination.

Q. And are you meaning to tell us now that just at this
5175 moment you don't know that Ford, Bacon & Davis did

develop such unit costs and performance rates for construction on the Hope property at that time?

MR. MILDE. Objection.

TRIAL EXAMINER. Overruled.

MR. MILDE. Note an exception.

THE WITNESS. I think they have, but I would like to make certain.

By MR. SLAFF:

Q. I have no objection, Mr. Antonelli, I want you to understand, to your verifying your answers.

Now did you use those rates of performance in any way in connection with the estimation of performance for your original cost determination?

A. I can't say offhand, I will have to refer to my papers.

Q. Well, Mr. Antonelli, don't you know now whether you did use those performance rates, developed by Ford, Bacon & Davis specifically for the Hope property in 1929, in connection with your original cost determination?

A. No, sir; I don't know offhand.

By "performance" you mean again the hours and not the costs, is that it?

Q. That is right.

A. We might have, but I am not certain. I will have 5176 to examine the working papers, and I will let you know.

Q. Did you have anything to do with that 1929 valuation of the Hope properties?

A. I think so, but I don't recall, it is so long ago, and I can't tell. There are so many jobs that we are doing that I can't tell you offhand. I will have to refer to the working papers.

Q. I notice you listed in your statement of qualifications in your Exhibit No. 20, "The companies for which I have done work of the foregoing nature include the following," and then you refer to the Hope Natural Gas Company, at page 3.

A. But there were several Hope Natural Gas Company jobs, and I think this refers to other jobs, in 1937, maybe, or 1923, or something like that, and I can't tell you which one.

Q. While you are checking this matter of whether or not unit performances were developed, and whether or not you used them in connection with your original cost determination, will you also refresh your recollection as to whether you had any con-

nection with that 1929 valuation, and if so, what the nature of your connection was?

A. I will be glad to.

Q. Now turning to Account No. 331-2, Field Measuring and Regulations Station Structures, shown on page 69 of your Exhibit, can you tell us whether or not any of the costs involved 5177 in constructing those boxes or houses, were included in the miscellaneous costs incurred in connection with that account?

A. Well, I don't understand what you mean by "miscellaneous costs" included in that account?

Q. Well, in the structure account, in 331-2, isn't there a sub-account, "Labor, Teaming, Freight and Miscellaneous Costs"?

A. Yes, sir.

Q. Now tell us what is meant by "miscellaneous costs" in that subaccount?

A. I don't have any miscellaneous costs.

Q. What?

A. I don't have any miscellaneous costs.

Q. What is meant by the term "miscellaneous costs" in that subaccount?

A. I don't have any miscellaneous costs in this subaccount, I have material and I have labor.

Q. Now let's start all over again, Mr. Antonelli.

There is a subaccount, "Labor, Teaming, Freight and Miscellaneous Costs"?

A. Not in this account; not the way I developed it; no, sir.

Q. No; I realize that, Mr. Antonelli, but on the Company's books, in the Company's records, getting away from page 69 for the moment?

5178 A. I don't know what is on the Company's books.

Q. You mean you don't know anything at all about anything that is on the Company's books?

A. Yes, I do, but I couldn't remember just every account.

Q. I am not asking you to remember the specific details of every account. Just getting away from your page 69, within the Account "Field Measuring and Regulating Station Structures", there is a sub-account, is there not, "Labor, Teaming, Freight and Miscellaneous Costs"; isn't that so?

A. I don't recall, I can't say unless I look up the books and see.

Q. Well, you told me just a few minutes ago there was.

A. No; I never said anything about this account having miscellaneous costs, unless you mean by "miscellaneous costs" the way we use it sometimes,—for instance, we have in a structure—not in this structure, but in other structures,—main items such as lumber and concrete and roofing, and so on, and then we have some miscellaneous costs such as fixtures or plumbing or that type. Is that what you have in mind?

Q. Mr. Antonelli, doesn't practically every one of the accounts of the Company contain a provision, a subdivision for miscellaneous costs?

A. In the case of pipe lines they do have miscellaneous costs, and that includes miscellaneous small materials and supplies consumed during construction, and board, and doctors' bills, and stamps, and things like that.

Q. How about field lines; does that account also have a miscellaneous sub-account?

A. Yes; pipe lines are field lines.

Q. How about compressor stations?

A. Yes, I think the compressing stations have.

Q. How about field measuring and regulating station structures?

A. I don't recall about this account; I know some other accounts have it.

Q. All right, Mr. Antonelli, will you check that account and determine for us whether or not there is provision made in this account for miscellaneous costs?

A. Yes, sir. The structures are so small, you know, and I don't think they would have miscellaneous costs for this account.

Q. Well, you will check and find out and report to us?

A. Yes.

Q. Now you say you found a voucher covering 700 of these 1300 wood boxes, is that right?

A. Yes, sir; I found several vouchers. One of the vouchers was for 689 meter boxes. The voucher was L-92, 1919.

Q. And you used the cost as developed from that voucher for the bulk of the 1386 boxes?

5180 A. Well, this voucher covers the construction and installation of part of these 1300 boxes, yes.

Q. Now first off, where was that expense charged to in the first instance, do you know?

A. I think it was charged to operation.

Q. That voucher covering some 680-odd boxes?

A. Yes, sir.

Q. When were these 1300 boxes constructed, do you know?

A. They were constructed at about the period of this voucher. I will explain that. The company will build these boxes and keep them at the warehouses and use them as they need them. They are small boxes, and usually they do this work when they are not very busy, in the summer, and they store them and then use them later. So that is why they all happen to be in 1919. I assume that that is the answer, or I am positive that that is the answer.

Q. You are positive that is the answer with respect to the entire 1300, is that right?

A. No; there were some other vouchers that show some other boxes installed in different years. This was the large one.

Q. Can you tell us when the balance of those boxes was constructed?

A. I could probably tell you about 50 more, the actual cost for approximately 50 other boxes.

5181 Q. When were those constructed?

A. Various years, 1920 and 1923 —

Q. (Interposing.) Were those all expensed?

A. Yes, sir; they were.

Q. All vouchers that you found in connection with these boxes had been charged to operating expense, the costs had been charged to operating expense?

A. Yes, sir.

Q. Now with respect to the houses, the 122 houses, do you know how those were charged, that is, the costs in connection therewith?

A. They were charged to operation.

Q. Now going back to another matter, Mr. Antonelli, can you tell us now whether or not it is a fact that your Company, the Hope Company, has always been required to show the cost of its property in its capital account?

A. No, sir; I cannot. I don't know what were the Company's policies, and I wasn't interested in finding out.

Q. Now how long have you been in this business of valuing public utility properties?

A. Any public utility property?

Q. Yes.

A. Since 1919.

Q. And in the course of that time, have you familiarized yourself with the Systems of Accounts under which the utilities
5182 which you were valuing were required to operate?

A. I investigated the books in order to get the costs, yes. I know something about—

Q. (Interposing.) You know something about the Systems of Accounts?

A. Yes.

Q. Now do you know something about the System of Accounts under which the Hope Company operated in West Virginia prior to the present System of Accounts, the prior system being in evidence here as Exhibit No. 12, I believe?

A. Yes, sir.

Q. And do you also know something about the System of Accounts of the West Virginia Commission under which the Hope Company was required to operate from 1923 to 1931?

A. Yes, sir.

Q. You do?

A. Yes, sir.

Q. Do you know whether, under those Systems of Accounts, the Hope Company was required to show in its fixed capital accounts the cost of its properties?

A. Yes, I do.

Q. And it is a fact, is it not, that under the Systems of Accounts under which the Hope Company was operating, from 1923 on, at least, of the West Virginia Commission, it has always been
5183 required to show in its fixed capital accounts the cost of its properties?

Mr. MILDE. I object to that. The accounts are in evidence, and it is not a question of fact, it is a matter of interpretation of the accounts.

Mr. SLAFF. I don't know what interpretation there is.

Mr. MILDE. Also, it is not proper cross-examination of Mr. Antonelli.

TRIAL EXAMINER. Well, so far as the existence of the facts are concerned, I think they are entirely clear from the evidence. If the purpose is to test the knowledge and reliability of the witness, that is something else.

Mr. MILDE. Well, as I understand it, that isn't the purpose of the question. Mr. Antonelli hasn't been testifying as to the interpretation of Codes of Accounts. He has testified that it hasn't been necessary for his original cost determination.

Mr. Slaff might as well interrogate Mr. Antonelli about his qualifications on the Ohio Code of Accounts, or something else, if he just wants to know how much he knows about accounting. It certainly has nothing to do with what he did, nor does it test his reliability or credibility as a witness on the subject for which he was presented.

TRIAL EXAMINER. Well, it doesn't seem to me that it is of great importance, anyway, so far as that is concerned.

The objection is overruled.

5184 Mr. MILDE. Exception.

* * *

The WITNESS. I don't know what is required, but I could tell you what actually Hope did.

Br. Mr. SLAFF:

Q. I am asking you whether you know what they were required to do under the governing Systems of Accounts from at least 1923 on?

A. Well, I could tell you from this Code of Accounts what was required, yes. I have read this Code of Accounts, and I know what is required.

Q. And was the Company, the Hope Company, required to show, in its fixed capital accounts, the cost of its properties?

A. According to the Code of Accounts prescribed as of 1923, yes.

Q. You determined the cost of the Hope Company's properties from sources other than the fixed capital accounts of the Hope Company, is that correct?

A. I went back to the vouchers and records where the actual cost was recorded, because I found that the fixed capital did not reflect the actual or complete cost of these properties.

5185 Q. Well, is that the equivalent of saying, are you telling us, then, Mr. Antonelli, that the Hope Company—in your judgment, at least—did not keep its fixed capital accounts in the manner in which they were required to keep them under the controlling Systems of Accounts, from 1923 on?

A. I am not a judge of that, I am not experienced enough to say that. I don't know.

Q. Are you telling us that the fixed capital accounts of the Company did not show the cost of the Company's properties?

A. It showed some costs, but they didn't show the complete costs.

Q. All right.

Now have you testified earlier today, or yesterday, that you were not interested in the bookkeeping or the accounting practices of the Company, and that your job was to determine the original cost of the Hope properties?

A. Yes, sir; to determine the original cost of the Hope properties from the Hope records, vouchers, and so on.

Q. And it is your belief, is it, that that determination can be made regardless of the Company's accounting practices?

A. That is the only practical way that one could make original cost, at least that is my experience.

Q. And is it your statement that such a determination of cost can be made without regard to the accounting for the 5186 various transactions?

A. My experience wasn't as difficult as that. What I did was, as I said before, make a list of all of the items in the system; then go to the various records of the Company where the actual costs for these items were recorded; and that is all I did, all I had to do. It was just a tedious job finding the cost of each item.

Q. I should like at this time, Mr. Antonelli, to find out, if I can, from you what were the principles that underlay your determination—and I am asking you now whether it is your testimony that the costs of property can be determined without a consideration of how the transactions were accounted for in the first instance?

A. Well, I did take that into consideration in connection with the investigation of the vouchers and records of the Company. Naturally, the vouchers will show the transactions, and I read them very carefully to see what happened to the various items. But I confined myself to the individual items and what happened to each individual item, and not what was the practice of the Company or what the Company did on their books, or what-not, or what was the policy of the Company. I didn't care if the item was expensed or capitalized, or what-not.

My job was to find the actual cost, the amount of money that the Company paid for these properties.

5187 Q. Mr. Antonelli, is it not a fact that for two identical construction jobs, the costs may vary, depending upon the accounting procedures of the two companies which have constructed those identical jobs?

A. I don't understand the question; will you explain it?

Q. Surely. Let's put a case to you.

Let's consider a pole line construction—everything else is the same, of course, all other factors are the same—a construction by two companies. In each of the cases the company has taken 500 poles out of its storehouse; in each of the cases each of the companies had, let us say, 2,000 poles in its warehouse, not specifically identified; and the poles had been acquired by each of the companies in the following manner: 1,000 at \$1 apiece, and the remaining 1,000 at \$2 apiece. Do you follow me that far?

A. Yes; I follow you.

Q. Now suppose the first company accounts on the "first in-first out" method, and the second company accounts on the average cost method. What is the cost to the first company of the material in the pole line of the 500 poles, and what is the cost to the second company of the material in the pole line which they construct?

A. Well, I can't answer that question; it doesn't mean anything.

5188 Q. Mr. Antonelli, you were discussing "first in-first out" yesterday, weren't you?

A. Yes.

Q. That is the way you priced out the communications equipment inventory of this Company, wasn't it?

A. Yes, sir.

Q. You know what "first in-first out" means, don't you?

A. Yes.

Q. You know what "average" means?

A. Yes.

Q. All right. Now then, confining ourselves to the first company, under the hypothesis I have given you, what is the cost of those 500 poles in its pole line? That is the company that uses the "first in-first out" method of accounting.

A. Well, the cost would be that the company will use the most recent poles first, and will keep on using them until it exhausts all of its poles.

Q. What is the cost to the company of the 500 poles in its pole line under the "first in-first out" method of accounting?

A. Well, what was the cost, a dollar apiece?

Q. A dollar apiece.

A. It would be \$500.

Q. Well, what is the cost of those identical 500 poles
5189 to the second company which accounts on the average?

A. That was a dollar apiece?

Q. The costs were identical.

A. It would be \$500.

Q. On the average method?

A. Well, you have 500 poles——

Q. (Interposing.) Perhaps you don't understand the question,
Mr. Antonelli.

The 2,000 poles were put into the warehouse and none of them were tagged. The first 1,000 that went into the warehouse cost \$1 apiece, and the second 1,000 that went in cost \$2 apiece. Now the first company accounts on the "first in-first out" method; the second company accounts on the average cost method.

Now will you tell us what the cost of those 500 poles in the pole line is, as far as the second company is concerned?

Mr. MILDE. I object to that question unless Mr. Slaff will state to the witness what he means by the word "cost." Does he mean the actual cost or the accounting cost?

Mr. SLAFF. Mr. Examiner, I am trying to find out from the witness what he means by "cost."

Mr. MILDE. No, he slips in this word "cost" without any statement to the witness as to whether he wants the actual cost or the accounting cost, or the cost——

Mr. SLAFF (interposing). This witness can qualify all over the lot, and I have no objection to his qualifying his
5190 answer if he feels he can't answer it unqualified.

Mr. MILDE. The answer is inherent in Mr. Slaff's assumption. If he means actual cost, he said that all of these poles cost exactly the same thing to both companies. So obviously, by "cost," when he goes on to ask a question about it, he must mean something else besides actual cost.

You say to a witness, "500 poles cost one company the same amount of money as they do the other company; now what does it cost Company A and what does it cost Company B?"

Now the word "cost" the second time isn't used in the same way. I think the witness is entitled to a statement by the cross-examiner as to what "cost" he wants him to figure out.

Mr. SLAFF. This witness has used allocated cost; he has used cost; he has used estimated cost; he has used first in-first out cost. He knows what costs are—maybe.

TRIAL EXAMINER. This witness is an expert in determining costs, and he is being asked now how he would make that determination and what his determination would be.

Mr. MILDE. I thought he was being asked what the cost was as meant by Mr. Slaff, because he starts out with the premise that these things cost the same amount. So when he says—

Mr. SLAFF (interposing). I say that the first 1,000 poles cost each of the companies a dollar apiece, and the second 1,000 that went into the warehouse cost each of the companies \$2 apiece.

Mr. MILDE. So it is perfectly apparent that all these poles cost Company A and Company B exactly the same amount of money.

Mr. SLAFF. Mr. Antonelli, do you understand now what Mr. Milde wants you to testify to?

The WITNESS. No, sir; I don't.

By Mr. SLAFF:

Q. Maybe you understand my question?

A. No; I don't understand your question. It is so mixed up.

Q. Let's start from the beginning; let's get the assumption straight.

TRIAL EXAMINER. Well, you understand the assumptions, don't you?

The WITNESS. Not quite; I want to make sure what he has in mind.

TRIAL EXAMINER. Start over, then.

By Mr. SLAFF:

Q. Each one of the companies buys the first 1,000 poles at a dollar apiece. That is clear, isn't it?

A. Yes.

Q. They each buy the second 1,000 poles at \$2 apiece — right?

5192 A. Yes.

Q. In each case the 2,000 poles are in the warehouse, unidentified, untagged. The first company accounts on the "first in-first out" method; the second company accounts on the average cost method. Each one of these companies constructs a 500-pole run. Now what is the cost to the first company of the 500 poles in that pole line which it has constructed?

A. Well, that is not the way we did it, but I will answer your question. For one company it will be \$1.50 per pole, and for the other it will be \$2 per pole.

Q. You are a little off, aren't you, Mr. Antonelli?

A. Then I don't understand your question.

Q. "First in-first out," what does that mean to you?

A. On the "first in-first out" theory, you exhaust the latest costs or the latest poles, and then you go back to the first ones.

Q. Aren't you thinking of "last in-first out," Mr. Antonelli?

A. That is right. No, "first in-first out." We took out the oldest poles and we retired the oldest poles first, and we assume that the poles that are in there now are the latest poles.

Q. What poles would go out of the warehouse first on the "first in-first out" method, Mr. Antonelli?

5193 A. The oldest poles will go out first.

Q. Go out of the warehouse?

A. The latest poles will go out of the warehouse, the oldest poles will go out from the inventory.

Q. We haven't had any poles in the field and in our inventory, we have just got 2,000 poles in each of the warehouses.

A. Yes.

5194 Q. Now, under the "first in—first out" method, which poles would go out first, the oldest ones?

A. That is not what I did at all. I don't know which poles would go out under the "first in—first out" method.

TRIAL EXAMINER. You mean which ones would be charged off the books, don't you?

Mr. SLAFF. Certainly.

TRIAL EXAMINER. He is talking about taking the poles physically out of the warehouse and I assume the first ones they would take out are the last ones they put on the pile.

By M. SLAFF:

Q. Let's get back to the same language. Can you tell us now what is the cost of the 500 poles in the pole line under the "first in—first out" method of accounting for cost?

A. In the warehouse or in the inventory?

Q. In the pole line that has been constructed.

A. I am sorry, but I don't understand your question. I want to make sure now. We were talking about warehouses and now you are talking about the line. What are you talking about?

Q. Mr. Antonelli, do you mean now that you don't understand what the question was that was put to you?

A. No, sir.

Q. Do you want to start all over again, from the beginning?
5195

A. Yes.

Q. Will you just listen reasonably carefully then? You do understand the underlying assumptions that each of the two companies bought a thousand poles at \$1 apiece, put them into the warehouse; and each of the companies then bought another thousand poles at \$2 apiece and put them in the warehouse.

Then, each of the companies withdrew 500 untagged poles from the warehouse and constructed a pole line. Is that all clear to you, up to that point?

A. Yes, sir.

Q. Now, then, what is the cost of the pole line to the first company which counts on the "first in—first out" basis?

TRIAL EXAMINER. You are called on in each case to determine the cost of those poles.

The WITNESS. Well, they are untagged, those poles?

By Mr. SLAFF:

Q. Completely untagged.

A. They won't know which are the dollar poles and which are the \$2 poles, and they are all mixed up together. Therefore, they will have to use the average price.

Q. Well, my assumption, Mr. Antonelli, is that the first company does not use the average price but uses the "first in—first out" method of pricing.

5196 A. That assumption is wrong because if the poles are untagged, the company does not know which are the dollar poles and which are the \$2 poles.

Q. Mr. Antonelli, don't you know that it is a thoroughly sound, accepted method of accounting to account "first in—first out" where items in a warehouse are unidentifiable?

A. No, sir.

TRIAL EXAMINER. Isn't that what you did?

The WITNESS. No; I did that in the case of the inventory. I was talking about the inventory, Mr. Examiner, and not about the warehouse.

By Mr. SLAFF:

Q. Well, Mr. Antonelli, are you intent now on demonstrating that you don't know anything about accounting, is that it?

A. No, I don't say that; no, sir.

* * *

5572 PETER ANTONELLI, having been previously sworn, took the stand and testified further as follows:

Cross-examination by Mr. SLAFF:

Q. Mr. Antonelli, you will recollect that towards the conclusion of your examination on Tuesday we were discussing an illustration which I had put to you with respect to cost of identical property to two different companies. Do you have the facts of that illustration in mind?

A. Yes, sir; I do. I am sorry I misunderstood you. I thought you were talking about communication equipment.

Q. No; you understand that was purely an illustration I was giving?

A. Yes.

Q. And with respect to that I had asked you to tell me what the cost of the poles in the pole line of the first company which are accounted on a first-in, first-out basis was. Can you tell me that now?

A. As far as the actual cost is concerned, the cost to the "A" company is the same as the cost to the "B" company.

Q. No, I am not asking for a comparison. I am asking you in dollars now. Let us take "A" company which accounts on a first-in and first-out basis and "B" company as the company which accounts on an average basis. Now, will you tell me what is the cost in dollars of the poles in the pole line of company "A"?

A. From a bookkeeping point of view?

Q. What is the cost?

A. Well, what, do you mean, actual cost or bookkeeping cost?

Q. What is the actual cost in dollars of the poles in the pole line of company "A"?

5574 A. Well, I will have to estimate it.

Q. Well, now will you tell me, why, first off, you have to estimate it on the basis of the facts which I have given you?

A. Well, on the basis of the facts which you have given me, which is not the actual cost but just an accounting cost, the cost of that particular line would be \$500.

Q. Now, you say that that is not the actual cost. Is that correct?

A. That is correct; yes.

Q. Now, will you tell me why that is not the actual cost?

A. Because the company spent \$3,000 for the poles that they purchased.

Q. No; there is no necessity at this time, I believe, Mr. Antonelli, to bring in company business. We will make the comparison, you needn't worry about that, we will get around to the problem of comparing the two companies, but confine yourself, please, now to company "A" and tell me why the actual cost of those 500 poles is not \$500?

A. Because the company selected to take out of the \$3,000 five hundred poles at a dollar price, which is not the actual price of these 500 poles. They just chose to use a dollar a pole, 5575 they could have used just as well \$1.50 or \$2.00 but they choose to use \$1.00 a pole.

Q. Then you mean to tell me, that a company which accounts on a first-in, first-out basis for such materials coming from its storehouse does not by that method show its actual costs on its books?

A. The company will show the actual cost on the books at the time they exhaust the 3,000 poles.

Q. Well, we are not at that time yet, Mr. Antonelli, we are still at the 500 poles in the pole line.

A. No; they don't show the actual cost of these 500 poles, no, sir.

Q. That would apply equally, would it, to company "C" which is a new company we are going to bring in now which accounts on a last-in, first-out basis? Under your approach, if that company accounted for 500 poles, all other conditions being the same as those you have been discussing, on a last-in, first-out basis, its books would not show the actual cost of its property? Is that correct?

A. No, sir; that is just a bookkeeping method of keeping the books.

Q. So that it is your position, isn't it, that the only actual costs which exist in such a situation are average costs? Is that correct?

A. I think it is about the best method that you could 5576 use——