

Q. (Interposing.) No, I am not interested in what you think is the best method, Mr. Antonelli, at this point. I am asking you whether it is your position that the only actual costs in such a situation are the average costs.

Mr. MILDE. Well, I object to that question, he has just answered it.

Mr. SLAFF. No, he definitely skidded away from answering it, that is why I repeated it.

The WITNESS. Well, as far as I am concerned personally, I think the average gives you about the best results.

By Mr. SLAFF:

Q. That is apparent as I understand your testimony, Mr. Antonelli, but I am asking you if it is also your position that that average cost is the only actual cost?

A. Inasmuch as the poles were not tagged, they were all mixed up and you spent \$3,000 for the poles, I think the average is the best method to take the poles out of the warehouse.

Q. Mr. Antonelli, confining yourself to the 500 poles in the pole line, will you tell us whether it is your position that the only actual cost of those poles is the average cost?

A. The actual pole cost is the \$3,000, now if the company is going to take them out and what they want to do with it, 5577 of course, is a problem of accounting policy.

Q. Perhaps you don't—do you realize we are confining ourselves to the 500 poles in the pole line?

A. Well, in the case of the 500 poles I think, as far as I know now, the only method would be the average cost.

Q. And I am not sure that your answer is quite complete. Do you mean, Mr. Antonelli, that the only actual cost of those poles is the average cost?

A. Under the circumstances I say yes.

Q. So that in the illustration that we have been discussing a company which accounts on a first-in, first-out basis or accounts on a last-in, first-out basis does not state its actual costs on its book. Is that correct?

* * *

5579 The WITNESS. I don't know in this case what the answer would be, but, as I said before, that wasn't the way I derived my original cost.

By Mr. SLAFF:

Q. That is thoroughly patent, Mr. Antonelli, and I think you have explained several times how you derived your original cost and what we are doing now is trying to test the validity of your determination.

Now, we know that isn't the way you did it. Now, then, can you tell us, directly, Mr. Antonelli, whether in this situation in your view a company which accounts in this type of situation on the first-in, first-out method or on the last-in, first-out method is or is not stating on its books the actual cost of its property?

A. I don't know, I can't tell you because in that thing I did, I didn't have any occasion to use that kind of a method. I had the actual cost.

Q. You had occasion to determine actual cost, did you not?

A. Yes, sir.

5580 Q. As you conceived it?

A. Yes; I did.

Q. And you had, then, to determine what was actual cost or if there was actual cost or if there was more than one way of stating actual cost, is that right?

A. Yes; I tried to determine the actual cost from the company records to the best of my ability, yes.

Q. And you had to determine in your own mind whether there was simply one way of stating actual cost or more than one way of stating actual cost. Isn't that correct?

A. Well, my actual cost was a matter of fact. I did find it in the company records, it was recorded, it shows that the company paid so much for certain items.

Q. Now, Mr. Antonelli, will you please answer my question? You had to determine in your own mind whether there was just one way of determining actual cost or more than one way of determining actual cost, isn't that right?

A. Yes.

Q. And you came to the conclusion, as I understand it, that there was only one way of determining actual cost?

A. Yes.

Q. Now then, in the illustration which we have been discussing, will you tell us whether in your view the company which accounted for the 500 poles we have been discussing on the first-in, first-
5581 out basis or the company which accounted on the last-in, first-out method would or would not be stating its actual cost of those poles on its books?

A. From the standpoint of actual cost, both of the methods are wrong and if I had a case like that I would try to remedy it to get the actual cost by going back and finding and trying to determine what was the actual cost. If I couldn't have gotten it, I would have tried to estimate it. I wouldn't use the first method or the last method.

Q. And is it your view, then, if you can answer the question specifically and directly, that the company which accounts on the first-in, first-out method and the company which accounts on the last-in, first-out method are not stating on their books the actual cost of that property?

* * *

5582 The WITNESS. My answer is no, they are not, in this illustration.

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5583 By Mr. SLAFF:

Q. Mr. Antonelli, we were discussing, before lunch, an illustration which I had put to you in connection with your statements respecting the ascertainment of actual cost and what is actual cost, and so on, and I should like to continue along that line with a somewhat different problem for you.

Using our three companies, A, B, and C, will you assume the following: that identical properties are about to be constructed in the illustration; that utility A capitalizes interest during construction only on jobs which take 30 days or more and which cost \$5,000 or more; that utility B capitalizes interest during construction only on jobs which take 30 days or more and which cost \$2,000 or more, and that utility C capitalizes interest dur-
5584 ing construction only on jobs which take 60 days or longer, and cost \$4,000 or more.

Now, before going into the questions that I want to develop in that specific example, I would like to ask you whether there is anything unusual in the type of situations which I have given you?

A. No, sir.

Q. In other words, those are normal accounting practices within the natural gas industry?

Mr. MILDE. I object, unless he qualifies this witness to testify as to normal accounting practices in the natural gas industry. He hasn't been presented as an accountant.

Mr. SLAFF. You qualified him on that specific matter, in his Exhibit 20, when he specifically spoke of how he had used interest during construction in this case. Not finding specific records on the company's books, he assumed, as I recollect, interest during construction on jobs of 30 days or more and costing \$5,000 or more.

Of course, if he wasn't qualified to make that assumption, then I move to strike all his direct testimony in that respect.

Mr. MILDE. That wasn't the question you asked him. You asked him as to general accounting practices in the natural gas industry. If you want to qualify him as to his experience and knowledge of the general accounting practices in the natural gas industry that is up to you, but that isn't a part of his direct testimony.

5585 By Mr. SLAFF:

Q. Mr. Antonelli, do you know anything about accounting practices in the natural gas industry?

A. No, sir.

Q. Do you mean to tell me you testified here on original cost without knowing anything about accounting practices in the natural gas industry? Is that what you are telling us?

A. I determined the original cost of this property.

Mr. SLAFF. Mr. Examiner, may we have the witness instructed to answer this question?

* * *

TRIAL EXAMINER. You may answer the question.

The WITNESS. I say that I do not know about the accounting practices of the gas industry. I did not have to know the accounting practices of the gas industry because my job was to determine the original cost from the company's records, and I went to these records and got the original cost of each item; and the accounting practices were not involved or did not concern me at all.

5586 By Mr. SLAFF:

Q. Didn't you testify that you followed the accounting principles in the Federal Power Commission system of accounts and the West Virginia system of accounts?

A. Yes, sir; as much as possible, and as I said before that was in connection with classifying the properties in accordance with the new code of accounts.

Q. And do you mean to tell us, Mr. Antonelli —

* * *

The WITNESS. And I did that, I set up all the properties and classified the properties, using these new accounts and including in each account what was said in the code of accounts; yes, sir.

By Mr. SLAFF:

Q. Mr. Antonelli, are you telling us now that you claim to have followed the accounting principles as laid down in those two systems of accounts, without knowing anything about the accounting practices in the natural gas industry?

A. Well, what do you mean by "accounting practices"?

Q. You told us a few minutes ago that you didn't know anything about the accounting practices in the natural gas industry. What did you mean when you said that?

A. By that I meant whatever the policies were of the various companies. Each company might have a different policy and a different way of setting up their books.

Q. You didn't go into the specific policies of each company, is that right?

A. Well, I am referring to the Hope Company.

Q. Well, do you know anything about general accounting practices in the natural gas industry?

A. I didn't have to know.

Q. Well, do you, or don't you?

Trial EXAMINER. Please answer the question.

The WITNESS. No, sir; I don't know.

By Mr. SLAFF:

Q. And we can rely on that last answer of yours, Mr. Antonelli, in evaluating your testimony in this case, can we?

A. Well, my testimony——

Q. (Interposing.) No, no—will you answer this question which I have just put to you? Can we rely on this last answer of yours as being a true and correct answer in evaluating your testimony in this case?

Mr. MILDE. I object to that type of question.

Mr. SLAFF. There is nothing objectionable about it.

Mr. MILDE. Who is "we," and what do you mean by "evaluating"?

Trial EXAMINER. The objection is overruled.

The WITNESS. Will you read the question, please?

5588 (The question was read by the reporter.)

Mr. MILDE. I wonder if it wouldn't be fairer to the witness to hear the preceding question and answer?

Mr. SLAFF. By all means.

Trial EXAMINER. Read the preceding question and answer.

(The reporter read—Line 6 to Line 14, inclusive, page 5387—as follows:)

"Q. Well, do you know anything about general accounting practices in the natural gas industry?

"A. I didn't have to know.

"Q. Well, do you, or don't you?

"Trial EXAMINER. Please answer the question.

"The WITNESS. No, sir, I don't.

By Mr. SLAFF:

"Q. And we can rely on that last answer of yours, Mr. Antonelli, in evaluating your testimony in this case, can we?"

The WITNESS. I again say that I did not have to know—

By Mr. SLAFF:

Q. (Interposing.) Mr. Antonelli, will you please listen to the question and will you please try to answer the question which I have put to you?

Mr. SLAFF. Will you read it again?

(The following was read by the reporter:)

"Q. And we can rely on that last answer of yours, 5589 Mr. Antonelli, in evaluating your testimony in the case, can we?"

The WITNESS. I can't answer that question. I don't know how you want to rely on it.

By Mr. SLAFF:

Q. I will tell you what I mean. Can we accept that last answer as a true and correct answer on your part in evaluating your oral testimony?

A. My answer was that it wasn't necessary for me to know the accounting practices —

Trial EXAMINER (Interposing). That doesn't answer the question, Mr. Antonelli.

Mr. MILDE. Well, it is a perfectly unfair question because it assumes that this witness doesn't tell the truth every time he answers a question—and he does.

Mr. SLAFF. No; I want him, just as you have pointed out, to realize fully what the last question was and the answer that he

made, and on that basis I want him to tell us whether we can rely on that in evaluating his testimony as a true and correct response.

Mr. MILDE. Well, that is no way to ask a witness a question or to arrive at the result that Mr. Slaff wants to reach—"Can we rely on it?" That is perfectly unintelligible. If he wants to say to the witness: "Well, now, do you understand fully
5590 that last question and is your answer a full and complete answer, and do you understand what you are saying?", that is all right, but when he says, "Can we rely in evaluating"—that is perfectly meaningless to any witness, who isn't a lawyer, I would say.

Trial EXAMINER. All right, let's see. Do you understand the question, Mr. Antonelli?

The WITNESS. Yes; I do.

Mr. MILDE. Well, then, answer it.

Trial EXAMINER. It seems to be meaningful to him.

The WITNESS. Well, I don't know how to answer it, Mr. Examiner.

Trial EXAMINER. Well, it seems to me that if you understand what the question means it shouldn't be difficult to answer.

The WITNESS. But, as I said before, it wasn't necessary for me to know anything about —

Trial EXAMINER (Interposing). We understand your position in that respect all right; that is entirely clear.

The WITNESS. Well, with the qualification that it wasn't necessary for me to know the policies and accounting practices of the company, I will say "Yes."

By Mr. SLAFF:

Q. All right. You do know something about interest during construction, don't you?

A. Well, I applied these interests to these various costs.

5591 Q. And you do know, or purport to know, something about actual costs, too; that is correct?

A. Yes, sir.

Q. All right. Now, you have before you the assumptions I have given you with respect to these three utility companies, do you?

A. Yes, sir.

Q. Now, will you assume also that the cost of money to all companies is the same, 6 percent per annum?

A. Yes.

Q. Now, let us assume that an identical construction job is done by you for the companies, and the job lasts 60 days and costs \$2,500. Now, will you tell us what is the cost of that job to each of the three companies?

Mr. MILDE. Well, again, I object to that question unless we have the cross-examiner state what type of cost he means.

Mr. SLAFF. Why, Antonelli's actual costs.

The WITNESS. The job costs, you say, \$2,500?

By Mr. SLAFF:

Q. Yes, \$2,500.

A. And you want to find the interest?

Q. No, no; that is inclusive of all costs other than interest, if any. Now, I want you to tell me the actual cost of that job to Utility A, to Utility B and to Utility C?

A. Let me see now if I understand your problem. On 5592 A Company the interest was 30 days, capitalized 30 days, and the amount should be \$500 or over?

Q. \$5,000 or over.

A. Yes, sir. The second one was 30 days and the amount was \$2,000 or over?

Q. That is right.

A. And third was 60 days, and the amount was \$4,000 or over?

Q. That is right.

A. And the problem was that you had a two months' period now?

Q. Yes, at a cost of \$2,500.

A. On the first one, inasmuch as the amount is less than the \$5,000, there will be no interest included.

Q. So the cost would be \$2,500?

A. \$2,500.

Q. The actual cost of that construction?

A. That is, under your assumption.

Q. That is right. Now, how about the second one?

A. The second one—it is 30 days and you allowed me \$2,000 or over. Therefore, for the first \$2,000 you don't have to pay interest, and you are going to pay interest for the \$500, and the interest you pay on the \$500, you pay—I assume under your 5593 illustration—for a month, and it would be \$25 extra, making the amount \$2,025. That is the assumption that you make. On the third case, you have 60 days and \$4,000. There-

fore, you pay interest on the \$2,000. On the last company, you don't pay any interest at all.

Q. Well, I think we are in agreement, Mr. Antonelli, as to your answer and your method with respect to Utilities A and C, the first and the last, so let's just review that. With respect to those two, the actual cost of that job is \$2,500; is that correct?

A. Yes.

Q. Now, let's go to Utility B. Before putting that question, let me put this question to you: When you, in your original cost study, capitalized interest during construction on jobs costing \$5,000 or more, and lasting 30 days or more, suppose a job costs \$6,000 and lasted 60 days, what interest did you capitalize?

A. I assumed that the money will be—that we will have to have half of the interest— you don't need all the money at the beginning and we will need only half of it at any time. In other words, use 3 percent instead of 6 percent per annum.

Q. On the full amount?

A. On the full amount.

Q. Now, with respect to the company which I have designated as Utility B in the illustration which I have given
5594 you, will you tell us again what the actual cost of that job is, and how you arrived at it?

A. I was using your method, now.

Q. Using the assumptions that I gave you.

A. I said that I assumed that you told me to use 6 percent—

Q. (Interposing) Per annum?

A. Per annum.

Q. That is right.

A. And I just did that—I used half a percent per month. But in my case, in the original cost I used a quarter of a percent.

Q. I realize that. Will you tell us in this illustration I have given you, again, what is the actual cost of that job to Utility B?

A. It will be \$2,000 plus one month's interest on the \$500. Based on your assumption that would be \$2,025; based on my assumption it would be \$2,012.50.

Q. Well, in any event, Mr. Antonelli, is it true that in such a case you get a different actual cost for the same job for one utility than for another?

A. No, sir.

Q. Well, perhaps I misunderstood you, but did you tell us that the actual cost of the job for Utilities A and C was \$2,500?

5595 A. Yes.

Q. Did you tell us, now, that the actual cost of the job for Utility B is either \$2,525 or \$2,512.50?

A. That is right, because—

Q. (Interposing.) All right—

Mr. MILDE (interposing). Let him finish.

Mr. SLAFF. Go ahead, if you want to explain it.

The WITNESS. No; that is all right.

By Mr. SLAFF:

Q. So, as I understand it, you do have one actual cost for the first utility and a different actual cost for the same job for the second utility; isn't that correct?

A. You are to B now?

Q. Surely.

A. Yes; but in one instance I assumed that the money was available, you had the money at the beginning to start the job and you had to pay interest right before you started the job; and on the other I assumed that the money was available as you needed it, and you didn't need to have all the money at the beginning or all at the end.

Q. Perhaps you don't understand me, Mr. Antonelli.

Confining ourselves now to a comparison of Utility A and Utility B, in one case you tell us the cost is \$2,500, the actual cost, and in another case, using your method, \$2,512.50, is that correct?

5596 A. Well, that was again an accounting practice of the company, and it was due to the way the company chose to do their work.

Q. Surely, and it was, in both cases, the actual cost of the property to the utility, was it not?

A. No; I wouldn't say that.

Q. Now, then, you want to change your answer, as I understand it, to the effect that one of those costs is not the actual cost to the utility involved; is that so?

A. Well, it all depends on what the company decides to do. They both might be actual costs, it all depends on what the company did actually spend.

Q. I have told you, Mr. Antonelli, just exactly what the company spent and what the company in each case decided to do.

* * *

5597 Q. All of the conditions, Mr. Antonelli, are the same,
5598 except as I have told you and as I originally told you, the decision of each of the companies as to the type of job on

which they will capitalize interest during construction. Now, with that in mind, do you want to change any of your previous answers as to what was the actual cost to any of the companies involved?

A. I still say the actual cost was what actually the company's decision was to handle this matter and how they spent.

Q. Now, then, tell us in dollars what was the actual cost of the property to Utility A?

A. Well, under the method chosen by the company, it will be \$2,000.

Q. \$2,500, you mean?

A. \$2,500, yes, but of course that was just the bookkeeping method that the company chose to follow.

Q. Well, is that, or is that not, in your judgment, the actual cost of that property to that company?

A. That is the cost that the company will show on its books.

Q. Is it, or is it not, the actual cost of that property, Mr. Antonelli?

A. Well, somebody must have paid some more money for the interest, or somebody lost the interest. So I would say that it isn't the actual cost.

5599 Q. It is not?

A. No; it is not the actual cost.

Q. Now, then, with respect to the second company, what is the actual cost?

A. The actual cost will be, under the assumption, providing the company secured the money at—say it had to have only part of the money to start with and part of the money during the construction, the actual cost will be \$2,500 plus the interest of \$12.50 or \$25.

Q. And if I understand in your last answer before this one, you then did not determine the actual cost of the Hope Company property; is that correct?

A. Yes; I did.

Q. Was there any cost on jobs of less than \$5,000 and less than 30 days of construction time for interest?

A. No; but the reason for that was because the jobs were so small—

Q. (Interposing.) Was there or was there not?

MR. MILDE. Let him continue his answer.

THE WITNESS. And we didn't feel that the amount involved would warrant the time it would take to calculate this interest.

By Mr. SLAFF:

Q. Well, regardless of your emotions in the matter, Mr. Antonelli, were there or were there not costs for interest during construction of the Hope property on jobs of less than \$5,000?

A. No, sir; there were not, and I would like to qualify my statement and tell you why.

Q. Well, let me understand. You are telling us that those costs did not exist; is that right?

A. The costs did exist but we didn't bother showing them.

Q. I realize that you didn't show them, but I am asking you whether or not the costs for interest did exist on jobs that cost less than \$5,000 to Hope?

Mr. MILDE. I object; he has just answered that question.

Mr. SLAFF. He started to answer it.

TRIAL EXAMINER. If I understood it right, he didn't answer it as he intended to.

Mr. MILDE. Maybe not.

TRIAL EXAMINER. If I am not mistaken, he has two answers to the question already.

Mr. SLAFF. The answer has been both ways now, and I would like to have a majority opinion from the witness.

Mr. MILDE. I don't think it has been answered both ways.

Mr. SLAFF. Well, suppose you tell us whether or not on jobs that cost less than \$5,000 in the Hope system there was a cost for interest incurred by Hope?

5601 The WITNESS. We are referring now to my original cost?

By Mr. SLAFF:

Q. No; was there in the history of the Hope Company, on jobs that cost less than \$5,000, a cost to Hope for interest?

A. There must have been; somebody furnished the money.

Q. All right. And your exhibit does not show that; is that correct?

A. Yes, sir; and I explained why.

5602 Q. That is right. So that, to that extent at least, your exhibit does not show, in your own eyes, the actual cost of the Hope properties; isn't that correct?

A. Well, we did that on account—

Q. (Interposing.) No, no; is it or is it not correct, Mr. Antonelli?

The WITNESS. Read the question, please.

(The question was read.)

The WITNESS. It does not show the interest for properties constructed taking less than one month or costing less than \$5,000.

By Mr. SLAFF:

Q. Mr. Antonelli, you told me in the hypothetical case I gave you that \$2,500 was not the actual cost of the property constructed to Utility A, did you not?

A. Yes.

Q. Now I am asking you—

A. (Interposing.) That was a hypothetical question you were asking.

Q. Why, of course.

A. All right.

Q. And I am asking you if, on the basis on which you answered that question, it is not a fact that your Exhibit in this case does not show the actual cost of the Hope 5603 Company properties?

A. I say that it does show the actual cost of the Hope Company properties, and the only reason that we did not show the interest on properties constructed, in less than 30 days and costing less than \$5,000 was from a practical standpoint it would have taken a great deal of time to determine that amount and to calculate it. It didn't amount to very much. That is why we left it out. It is just a conservative answer.

Q. So that your determination of actual cost of the Hope Company properties depended, to this extent at least, on the choice which you made with respect to a matter of accounting discretion, did it not?

A. No, sir; no accounting discretion came into the picture.

Q. Tell me this. Was it a matter of accounting discretion as to whether you would take jobs costing \$5,000 and taking 30 days or more to construct, or jobs costing \$6,000 or \$7,500, and taking the same time to construct?

A. Well, I confined myself to the \$5,000 jobs, because I thought that would give about the best results.

Q. Wasn't that a matter of discretion as to which amount you would take, and what period you would take as a basis for capitalizing interest during construction?

A. I didn't capitalize any interest during construction, I just determined the original cost and could have used—

5604 Mr. SLAFF (Interposing). Mr. Examiner—
Mr. MILDE (Interposing). Let him continue.

Mr. SLAFF. Go ahead.

The WITNESS. I could have started with a dollar and I could have started with something else, but in my estimation I thought that \$5,000 and the one-month period were about the best basis to use.

By Mr. SLAFF:

Q. And that was a matter of choice with you, of discretion with you, was it not?

A. A matter of judgment; yes.

Q. And that matter of judgment involved a matter of essentially accounting judgment, how the transaction should be accounted for, did it not?

A. No, sir.

Q. Is the computation of interest during construction in the utility industry an accounting matter, Mr. Antonelli?

A. I don't know.

Q. Do you know anything about the operation of natural gas companies, Mr. Antonelli?

A. No; I am an engineer; no, I don't, as to the operations. I don't know just exactly what you mean by "operations." Let me get that straight.

Q. Do you know anything at all about the office operations of a natural gas company?

5605 A. Well, I have been around them.

Q. I mean, besides going through and saying "hello" to the boys?

A. I worked right in the company's offices; yes, sir.

Q. Now don't you know that the determination of the amounts to be charged as interest during construction in the routine operation of a natural gas company is a matter of accounting judgment?

A. Well, it might be, but that is not the way I did it.

Q. I think we are entirely convinced, Mr. Antonelli, that that is not the way you did it.

* * *

5606 By Mr. SLAFF:

Q. Now then, Mr. Antonelli, don't you know that it is a matter of accounting judgment or discretion to determine what

basis shall be used for the capitalizing of interest during construction?

A. Companies do that, I don't deny, but in this case——

Q. (Interposing.) You don't do it, we know.

A. I followed my judgment.

Q. We know that. Well, go ahead, have you got something more to add?

A. And we used this \$5,000 and 30 days and 6 percent, after a study as to interest rates on the construction done by Hope.

Q. So that it is a fact, Mr. Antonelli, is it, that your determination of original cost, in this respect, at least, depended upon the discretion which you exercised with respect to an accounting matter? Now that is so, isn't it?

A. No, sir.

Q. You did exercise a discretion with respect to the basis for capitalizing interest during construction, did you not?

A. I just found the additional——

5607 Q. (Interposing.) No, no, ——

A. (Interposing.) I didn't capitalize anything, Mr. Slaff, I determined the original cost, and the company did spend some money for interest, and in order to get the actual cost I did my best and added to the original cost the amount of money that was necessary for interest. That was an estimated figure.

Q. Now, Mr. Antonelli, are you telling us that in your determination of original cost, you did not capitalize interest during construction?

A. I didn't capitalize anything, I didn't do a bookkeeping job; I determined the original cost of these properties. I didn't say that the amounts were capitalized or expensed or what-not, I determined the original cost.

Q. Did you capitalize anything in your determination of original cost?

A. No, sir; I found how much this property cost as of December 31, 1938, to the Hope Company in the case of the property constructed by Hope, and its original cost in the case of property constructed by other utilities. That is all I did.

Q. All right. As the basis for determining how much should be included therein for interest during construction, you did use your discretion, did you not?

5608 A. Yes; after a long study; yes, sir.

Q. And you have told us, have you not, that the basis of determining what amounts shall be added for interest during

construction, in the operations of a natural gas company, is an accounting matter; isn't that correct, and isn't that what you have told us?

A. As I said before——

Q. (Interposing.) No; isn't that correct?

A. I don't know if it is an accounting matter or whatnot; I wasn't interested in that.

Q. Now then, are you telling us now that you don't know whether it is an accounting matter, in the operations of a natural gas company, to determine the basis upon which interest during construction shall be added to other costs?

Mr. MILDE. May I have that question read, please?

(The question was read.)

The WITNESS. Maybe it is, maybe it isn't.

By Mr. SLAFF:

Q. You don't know; are you telling us that you don't know whether it is or not?

A. Well, maybe it is; yes.

Q. No, no, Mr. Antonelli. Do you or don't you know whether it is?

* * *

5609 The WITNESS. I think it is an accounting matter.

By Mr. SLAFF:

Q. So then, Mr. Antonelli, isn't it a fair statement to say that in this respect, at least, your determination of that part of original cost depended upon your discretion with respect to a matter that is an accounting matter in the normal operations of a natural gas company; isn't that a fair statement, Mr. Antonelli?

A. It wasn't an accounting matter as far as deciding to use 6 percent; no, sir. In case I bought a house I have to pay 6 percent interest, that isn't an accounting matter with me.

Q. Well, I am referring to the fact that you used a specific basis of 30 days and \$5,000 or more.

A. Yes; that was engineering judgment. We do that even in other jobs; we do it in reproduction cost jobs.

Q. So then, you are telling us that in that particular respect your original cost determination did not in any way depend upon the exercise of your discretion with respect to a matter which is an accounting matter in the normal operations of a natural gas company?

* * *

5610 The WITNESS. I don't understand the question the way you have it there.

By Mr. SLAFF:

Q. What part of it don't you understand?

A. Will you break it up, please, into a couple of parts, and I may be able to answer it.

Q. It is a simple question; it is one question.

TRIAL EXAMINER. Read the question again, please?

Mr. MILDE. I challenge counsel to restate it

Mr. SLAFF. I can restate it, but I don't choose to at this moment. (The question was read by the reporter.)

The WITNESS. It is not clear to me.

By Mr. SLAFF:

Q. All right. Are you telling us, Mr. Antonelli, that in no way did your original cost determination depend upon the exercise of discretion with respect to accounting matters?

A. Yes, sir, I do; I did not pay any attention to accounting principles and practices of the Company.

Q. Now confining ourselves strictly to the amount of interest during construction included in your original cost determination, will you tell us whether, in that respect, the
5611 amount of interest during construction that was used depended in any way upon the exercise of your judgement, your discretion, with respect to a matter that is an accounting matter in the normal operations of a natural gas company?

Mr. MILDE. I object to that question. It is an inaccurate statement—

Mr. SLAFF (interposing). It is not supposed to be a statement; it is a question.

TRIAL EXAMINER. I don't understand it to be a statement of anything. Do you understand the question?

The WITNESS. Well, as I make it out, he is referring to this 6 percent that I am using; is it a matter of accounting principle?

TRIAL EXAMINER. The 6 percent?

The WITNESS. The interest that I used was a matter of accounting principle.

By Mr. SLAFF:

Q. As a matter of fact, as I have told you, Mr. Antonelli, I am referring more specifically to the basis, that is, the 30-day and \$5,000 basis that you used. In the light of that statement of mine, can you answer the question?

A. Well, I still say that the 30 days and the judgment the way we calculate interest, was based on studies made and
5612 not on any accounting practices or principles.

Q. The 6 percent was based on studies, you mean?

A. The 6 percent, yes; and the time was a matter of convenience for me to do it.

Q. That is, the 30 days and the \$5,000 basis; that was a matter of convenience to you?

A. Yes.

Q. Now another engineer, equally competent to you, could have used another basis, could he not, as a matter of convenience; that is to say, let us say 45 days and \$7,500; and be just as reasonable as you?

A. Yes, sir; he could have.

Q. Then he would have arrived at a different actual cost of the properties of the Hope Natural Gas Company, would he not, from the one you arrived at?

A. Yes; but this interest is not such a large amount, you know.

Q. Well, let's not worry about the size of the amount, Mr. Antonelli, at this moment.

* * *

The WITNESS. Well, I would like to say that this interest is not such a large amount that it will have any effect on the actual cost. After all, you know there were some estimates made
5613 in here, and to that extent maybe this actual cost is off a few dollars.

By Mr. SLAFF:

Q. Well, you realize, Mr. Antonelli, that we are discussing here the principles that underlay your determination? You understand that?

A. I do.

Q. Now it is a fact, then, that there is not merely one actual cost, in your own view, isn't that so?

A. There is only one actual cost. There couldn't be anything else but one actual cost.

Q. Well, then, at least you did not necessarily determine correctly that one actual cost, is that right?

A. I determined it as accurately as I could get it; yes.

Q. And another person, using the same methods but different discretion, and exercising his judgment in different ways on matters of discretion, could arrive at another statement of actual cost which might be equally reasonable with yours; is that correct?

A. Yes; and I would say that when we determined our actual cost, we stated the conditions under which we determined it. We said that in case of interest we allowed interest for properties \$5,000 and over, and taking 30 days to construct.

Q. By the way, who made that determination; was that the engineers or the accountants?

5614 A. As far as each one of the component parts, what about the interest, who determined that 6 percent was the proper rate of interest to use?

A. Well, that was determined after a long study as to the various interest rates paid during the history of the company, and we found out that 6 percent was about the normal interest paid.

Q. Who made the study?

A. One of our men; I just couldn't recall now.

Q. Do you have any work papers on that study?

A. I will have to refer to my working papers and see.

Q. Will you report to us whether you do or do not have any such working papers?

A. Yes, sir.

TRIAL EXAMINER. That was an engineering study, you say?

The WITNESS. It was just a study. We analyzed the interest paid in the various years, and what was the normal interest paid for that type of work way back from 1900 up to date.

Mr. REEDER. Mr. Antonelli, just to refresh my recollection, didn't you tell me in chief—

Mr. MILDE (interposing). Is this cross-examination, Mr. Reeder?

Mr. REEDER. No; this is just to refresh my recollection. Mr. Antonelli, didn't you tell me in chief that you based
5615 your interest during construction, of 6 percent, simply on the legal rate of interest in West Virginia?

The WITNESS. I don't recall offhand, Mr. Reeder, but I believe that 6 percent is the legal rate of interest in West Virginia.

By Mr. SLAFF:

Q. Well, will you check, Mr. Antonelli, and come back and tell us whether a study was made on which you based this 6 percent, and if it was, whether you have any working papers or not, or whether it is not a fact that you testified that you based your 6 percent rate on the legal rate of interest in West Virginia?

A. Yes, sir.

Mr. MILDE. Well, I submit that the only thing he has to report on is whether or not he has his working papers. He has testified

that he made the study, and whatever he said in the record before is already in the record. So the only thing he has to report on is whether or not he has working papers on this study.

Mr. SLAFF. It is all right with me, but I am suggesting for Mr. Antonelli's convenience on the witness stand that he refresh his recollection as to whether he testified in that respect.

By Mr. SLAFF:

Q. Now we made inquiry of you the other day, Mr. Antonelli as to whether Ford, Bacon & Davis had developed certain unit costs in the 1929 Hope valuation proceedings, and whether or not you used those unit costs in connection with your original costs estimates. Have you made such an investigation?

A. Ford, Bacon & Davis did develop unit costs in their valuation of the Hope properties as of 1929, but those costs were not used or performances were not used in connection with my determination of the original costs of Hope's properties.

Q. They were not used at all?

A. No, sir; they were not.

Q. For what purpose did Ford, Bacon & Davis make those determinations?

Mr. MILDE. I object. That has no relevancy to this case.

Mr. SLAFF. Well, he testified that Ford, Bacon & Davis developed certain unit costs or performances on the Hope properties.

Mr. MILDE. In 1929.

Mr. SLAFF. That is right. I want to find out for what purpose those were made, what was the basis for making them, and then I want to find out why he didn't use them here.

TRIAL EXAMINER. The objection is overruled.

Mr. MILDE. Note an exception.

The WITNESS. They were prepared for the purpose of determining the properties of the Hope Company as of that date.

By Mr. SLAFF:

Q. For determining the properties, you say?

A. The cost of the properties.

Q. And those were determinations based on the best knowledge and information and judgment of Ford, Bacon & Davis as of that time, of performance in constructing Hope properties; is that correct?

A. Yes, sir.

Q. And what did that study embrace?

A. What study?

Q. That Ford, Bacon & Davis made of performances on the Hope system?

A. Well, they just developed unit costs.

Q. Well, did they make a study of performances of labor in the Hope system?

A. Well, I can't answer that question, I didn't make that study then.

Q. Did you determine, Mr. Antonelli, at any time, in connection with this present study you have been making for the last several years, what Ford, Bacon & Davis did in that 1929 determination?

A. Other people worked on that job; I didn't.

MR. SLAFF. Mr. Examiner, will you please instruct the witness to answer the question?

5618 TRIAL EXAMINER. Answer the question.

* * *

The WITNESS. Determination of what?

By MR. SLAFF:

Q. O. K. Mr. Antonelli, you have testified that Ford, Bacon & Davis made certain labor performance determinations in connection with their 1929 valuation of the Hope property; is that right?

A. Are we referring now to structures?

Q. I am referring to anything in the Hope system.

A. As far as I can see, they did make studies, yes, sir; they must have made studies in order to price the properties as of that date, because that is the way we do our work.

Q. Now at any time in connection with your original cost study in this proceeding, up to this proceeding, did you investigate the records of your firm to determine what had been done by Ford, Bacon & Davis with respect to the determination of such performance units in the 1929 valuation?

A. No, sir; I didn't, but I believe that I applied the 1927 or 1929 unit costs that were developed by Ford, Bacon & Davis at those dates, to these three compressing stations that I used to equalize the Ford, Bacon & Davis performances with the actual Hope performances.

5619 Q. Mr. Antonelli, you told us on the witness stand the other day that the units of performance that you have used in connection with these three compressor stations to get your

ultimate performance in this case, came from records of Ford, Bacon & Davis covering a wide sweep of jobs, didn't you?

Mr. MILDE. I object, that wasn't his testimony.

The WITNESS. I never said anything like that.

By Mr. SLAFF:

Q. Didn't you emphasize, Mr. Antonelli, that the unit costs with which you compared these three compressor stations came from many jobs?

A. I said——

Q. (Interposing.) Did you or did you not?

A. I did not. I said it was based on studies made by Ford, Bacon & Davis.

Q. Of many jobs?

A. Yes, sir; based on their experience, I said.

5620 Q. And did you at any time, Mr. Antonelli, in that discussion of how you developed your labor performance rates in this case, tell us that you had added 25 per cent to performance rates developed by Ford, Bacon & Davis in connection with the Hope Natural Gas Company?

A. I said——

Q. (Interposing.) Did you or did you not tell us at any time in that testimony?

Mr. MILDE. Well, I object to that type of question.

Mr. SLAFF. It is a perfectly proper question.

Mr. MILDE. "Did you tell us at any time" upon cross-examination? Mr. Antonelli hasn't charge of the cross-examination.

Mr. SLAFF. And he hasn't answered in the cross-examination in my judgment truthfully in that respect, and I use that word advisedly.

TRIAL EXAMINER. Will you read the question?

(The question was read.)

TRIAL EXAMINER. Objection is overruled.

Mr. MILDE. Note an exception.

The WITNESS. I added 25 per cent to the cost——

TRIAL EXAMINER (interposing). No; he asked you whether or not you told him that. Do you understand? He isn't asking you what you did; he is asking you what you testified to.

The WITNESS. I testified that I added 25 per cent to the
5621 unit costs developed, based on Ford, Bacon & Davis performances, and that is a truthful statement and I never made anything but a truthful statement here.

* * *

5647 Q. And did the Hope Company receive a copy of those performances that were developed by Ford, Bacon & Davis, in connection with their 1929 valuation and keep them in its files—the Hope Company's?

A. No; I don't think so.

Q. Now, Mr. Antonelli, with respect to your Exhibit 60, will you be good enough, for the moment, to turn—will you turn specifically for the moment to the account 372 at pages 421 and 423?

A. Yes, sir.

Q. Dealing with office furniture and equipment?

A. All right.

Q. Now, were all the items set out at pages 421 to 423 expensed by the company in the past?

A. It was impossible for me to find if all of these items were expensed, because some of these items I could not identify. There is a possibility that some of these items were capitalized, but there was no way for me to find them on the company books. The description wasn't sufficiently clear.

Q. Did you say there was a possibility that some of these books had been capitalized?

A. I am not referring to the books, I am referring to the cabinets and so on.

Q. Well, then, if any of those were capitalized on the company's books to that extent, there is duplication.

5648 A. Oh, no. There isn't duplication. If this was on the books and I wasn't able to identify it, I left it out. I didn't take anything on the books that I couldn't identify. I prepared an inventory in the field and then reconciled it to the books, and if I didn't find the item and I wasn't sure that is the item excluded, I didn't use it.

Q. Well, if any of these were not on the books, what adjustment did you make in the account, or did you estimate the entire account?

A. If I didn't find it on the books I excluded it and didn't use it at all.

Q. Now, with respect, for a moment, to the law book costs which you shown on there, totaling, I think—oh, well, whatever it does total?

A. It is about \$14,000.

Q. Yes. Where were those costs charged in the past?

A. They were charged to operation.

Q. To an operating expense account; is that correct?

A. Yes, sir.

Q. And does the company still continue that practice?

A. I don't know.

Q. Now, assume that the company does still continue that practice, Mr. Antonelli, of expensing law books purchased and you were bringing your inventory down to June 30, 1941, the 5649 law books have been purchased between the date of your estimate and June 30, 1941, would you include in the cost of the property brought down to June 30, 1941, the cost of the books purchased between December 31, 1938, and June 30, 1941?

A. If I were determining the actual, original cost of these properties, regardless of what the company is doing on their books; yes, I would.

Q. Then your answer to my question is yes; is that correct?

A. Yes. I—

Q. (Interposing.) If you are bringing your original cost determination down to June 30, 1941, you would include within the original cost the amounts that had been expensed by the company from January 1, 1939 to June 30, 1941 for law books, and charge to operating expense; is that correct?

Mr. MILDE. If they still exist in 1941?

Mr. SLAFF. Certainly.

A. Yes; if I were determining the original cost as of that date I would include them; yes, sir.

By Mr. SLAFF:

Q. And that you would do under the prevailing system of accounts, to wit: The West Virginia System of Accounts and the Federal Power Commission System of Accounts, applicable to the Hope Natural Gas Company?

A. I didn't say anything about the accounts now. You 5650 asked me if I would bring in the original cost—my original cost. Now in the prevailing accounts that is something else.

Q. Well, I mean, you realize that the West Virginia System of Accounts has been effective since January 1, 1939, and the Federal Power Commission System of Accounts has been effective since January 1, 1940; you realize that?

A. Yes, I do and—

Q. (Interposing.) And you answered—

Mr. MILDE (interposing). Has he finished—

Mr. SLAFF (interposing). Well—

The WITNESS (interposing). Go ahead.

By Mr. SLAFF:

Q. (Continuing.) And you made your previous answer in the light of that knowledge and realization?

A. Yes, I did, but at the same time, as I said before, you asked me to bring this original cost up to date for the purpose of determining the complete costs of the properties. Now, I wasn't speaking or referring to any accounting methods that the company is following or the way they are going to set up their books after 1939 and so on. I was referring to the original cost of the property in order to determine the complete cost of this property.

Q. So, just as you disregarded the accounting of the company, pursuant to previously controlling systems of accounts, so, too, you would in that respect disregard the presently
5651 existing systems of accounts; is that correct?

A. Well, I wasn't doing an accounting job, Mr. Staff.

Q. No, no. Can you answer the question, Mr. Antonelli?

A. I am answering it. I say that I wasn't doing an accounting job. I was just determining the original cost of these properties, that is all. This is not a bookkeeping job where you have to show the amount on the books and how much you capitalized and how much you are going to set up in an account, 107 or 100-5 and so on. This is just supposed to show what is the original cost of the Hope properties and you asked me to bring it up to a later date, and I said that I will include all of the items regardless of the expense capitalized to the company as of any date that you wish me to do so.

Q. Yes. So that the fact that the presently existing systems of accounts were not in effect as of December 31, 1938; that makes no difference in your method and in your approach?

A. Not as far as determining the actual original cost of these properties is concerned; no, sir.

Q. You think it is entirely proper, of course, I assume, to expense an item during one year and to charge it as part of the capitalized original cost of the company at the end of that year also; is that correct?

Mr. MILDE. There is no testimony to that effect and if
5652 that is supposed to be a summarization of his testimony, it is inaccurate.

Mr. SLAFF. I am asking him. He can tell me if it is inaccurate or an unfair summarization.

TRIAL EXAMINER. Objection is overruled.

The WITNESS. That is an accounting problem. As I stated before, I didn't try to set up the company books. I didn't care if it was expensed or if it was capitalized. I said it so many times. I just determined the original cost of these properties. That was my problem.

Mr. SLAFF. May I have the question, please?

TRIAL EXAMINER. Read the question.

(Whereupon, the pending question, as above recorded, was read by the reporter.)

A. I don't know if it is proper or improper. That is an accounting problem.

By Mr. SLAFF:

Q. I am asking you whether you consider it proper, Mr. Antonelli?

A. I didn't have to consider it.

Q. I am asking you to consider it right now and tell me whether you consider it proper or not?

Mr. MILDE. Well, I object to that. That isn't proper examination of Mr. Antonelli.

Mr. SLAFF. Do you want the record to note that I was frowning at the witness at that moment, too?

5653 Mr. MILDE. No, I didn't suggest that. You usually smile at him.

Mr. SLAFF. Of course it is thoroughly proper cross-examination to go into the basis of the theories upon which he predicated his original cost.

Mr. MILDE. Not at all. This is an accounting question and this witness has said over and over again that he isn't an accountant, he is an engineer, and this is purely a cross-examination directed to test a man's accounting knowledge or his approach to accounting problems, and Mr. Antonelli hasn't been presented in that light, and he isn't an accountant, and this has nothing to do with his testimony whatsoever.

TRIAL EXAMINER. Well, it seems to me that the witness has gone somewhat beyond engineering matters in determining the original cost in this case. He hasn't qualified as an accountant, I don't believe.

Mr. SLAFF. I certainly agree with that last statement of the Examiner's wholeheartedly.

Mr. MILDE. Well, I don't think that is quite accurate except to this extent: That he had to set up these properties in accordance with the classification as prescribed in the code of accounts. The

purpose of that was so that we could use his work in our books when the time came, when we had to reclassify and determine the original cost of our properties in accordance with the code.

5654 What he has done is determine the original cost, that is what the properties actually cost and then he has reclassified it in accordance with the method of classification prescribed in the code of accounts, but I think that is as far as he has gone into the accounting field, if that really is an accounting field.

TRIAL EXAMINER. Well, it seems to me that a study of these vouchers and all that kind of stuff is accounting, certainly to a great extent. He has had to make lots of determinations, I would imagine, that were beyond the field of engineering. As a matter of fact, the witness was qualified, was he not, as a valuation expert?

Mr. SLAFF. Yes.

TRIAL EXAMINER. Including costs?

Mr. MILDE. I think that is right. He has worked on valuations for a good many years. My objection to this question was that it is purely an accounting question.

TRIAL EXAMINER. Well, I am inclined to agree with you so far as that is concerned. I am also inclined to the view that his opinion with respect to the matter isn't going to make a great deal of difference anyway.

Mr. MILDE. I think that is right.

Mr. SLAFF. Well, that may be so, but I think it is very illuminating as to his entire approach and as to the entire approach to the company.

5655 TRIAL EXAMINER. Objection is overruled. Answer the question.

Mr. MILDE. Note an exception.

* * *

A. Well, nobody has capitalized it one year and expensed it the other year. The company did not do that. They expensed it prior to 1939 and are still expensing it.

* * *

TRIAL EXAMINER. Mr. Slaff just wants to know what you think about that.

The WITNESS. Well, it all depends on the policies of the company. It depends on what the items are and I just don't know how to answer the question, if it is proper or it isn't proper.

* * *

By Mr. SLAFF:

Q. Well, with respect to specific items that we were discussing a few minutes ago—law book, for example—do you consider it proper for the company to expense the cost of those books 5656 during the year and at the end of the current year to include those same costs as part of the capitalized original cost of the company's property?

* * *

The WITNESS. Are you talking about the same year now or ——

By Mr. SLAFF:

Q. (Interposing.) That is right.

A. Will you give me an example?

Q. Sure.

A. All right.

Q. Bringing your inventory down to January 1, 1940, the company during the year 1939 expensed \$1,000 for law books and charged it to expenses?

A. Yes.

Q. Now, do you consider it proper for the company, at the end of that year, to include those expenses as part of the capitalized original cost of its property?

A. Well, it might be during that year that the company thought the items should be an expense and at the end of the year they thought they had made an error or something like that.

Q. No; there is no question of error. They properly expensed them under the controlling system of accounts.

A. That still depends on the policy of the company.

5657 Q. Well, I have given you the policy of the company, Mr. Antonelli, and I want you to tell me whether you think that that is proper action?

Mr. MILDE. Well, I object to the question. Proper under what? Is it in accordance with some code of accounts or according to——

Mr. SLAFF (interposing). Any way he wants to look at it. Code of accounts, code of ethics—any code he has.

The WITNESS. Under the code of accounts, if the company has decided that this item should be expensed, I would say that it would be improper to capitalize it.

By Mr. SLAFF:

Q. I see. Then I understand your present testimony to mean that you consider it improper to capitalize items which have

previously been expensed by the company exercising its discretion under a controlling system of accounts, is that correct? (Objection overruled.)

* * *

5658 A. Yes, sir.

By Mr. SLAFF:

Q. And that applies, of course, not only to the specific account that we were discussing, but throughout?

Mr. MILDE. Same objection.

By Mr. SLAFF:

Q. I mean, you weren't confining that to a specific account, were you?

Mr. MILDE. Same objection.

TRIAL EXAMINER. Objection overruled.

A. No, sir.

* * *

6250 PETER ANTONELLI was recalled as a witness, having been previously sworn, was further examined and testified as follows:

Cross-examination by Mr. SLAFF:

Q. Mr. Antonelli, one of the matters we were discussing the other day was what the basis for your use of 6 per cent as the rate which you used for interest during construction was. Do you remember that?

A. Yes, sir; I do.

Q. And it is a fact, is it not, that you used 6 per cent for interest during construction as being the legal rate of interest in the State of West Virginia?

A. Yes, sir.

Q. And that determination of 6 percent as the interest rate was upon that basis and not upon any study of cost of money to the Hope Company in the past; is that correct?

A. I looked over my papers and I find that the legal department of Hope was instructed to make a study as to the various rates, and what was the legal rate in West Virginia, and that is what I had in mind when I said that there was a study made up.

6251 Q. Yes, but the study was, as you have just testified of the legal rate of interest, statutory rate of interest in West Virginia, and not of any cost of money expense of the Hope Company; is that correct?

A. That is correct.

Q. As a matter of fact, construction by the Hope Company was financed primarily out of its own funds, isn't that so?

A. I don't know how they were financed.

Q. You just—

A. [Interposing]. I never had occasion to find out.

Q. I see. Now, with respect to your testimony that many of the items contained in Exhibit 60 were inventory adjustments, you recollect that testimony, do you not?

A. Yes, sir.

Q. Did you have in your Exhibit 20 a statement of the inventory adjustments contained in column 6 of Statement "B," page 31; is that right?

A. Yes, sir.

Q. And you furnished, did you not—and the net amount of the inventory adjustments was a red figure of \$1,804,000, is that not correct?

A. That is correct. As far as property constructed by the company is concerned, and property purchased from non-
6252 utilities or from utilities where not an operating unit of the system, yes; that is correct.

Q. Now, you furnished, did you not, to the Commission's staff, a breakdown of that figure, showing the total gross debits, and the total gross credits involved?

A. I recall furnishing a statement of that type; yes, sir. I just can't picture it now, what it looks like, but—

Q. [Interposing.] Well, will you examine those sheets which I hand you [handing], and ask you if that is the breakdown which you furnished the Commission staff?

A. Yes, sir.

Q. And those contain—those show, do they not, a total of—strike that. What amount do they show as debit, and what amount as total credit figures?

A. It shows as debit figure \$4,383,474.28, and as credit \$6,187,867.76.

Q. Leaving the net credit of \$1,804,000 shown in your Exhibit 20; is that correct?

A. Yes, sir; as far as property constructed by the Hope Company is concerned, or purchased from nonutilities.

Q. The debit amount of four million odd represents properties, cost of properties, which you have added to the capitalized cost,

the book cost, of the Hope Company properties; is that right?

6253 A. No; that is only a correction to the company records, a property that was found on the company—I mean, that were on the company books but not found in the field. Now, properties that were found in the field and not found on the books, they came under direct material and labor cost, not capitalized cost.

Q. [Interposing.] What does the debit amount of four million odd represent?

A. That represents adjustments of all kinds that were made on the company records. It isn't only an inventory adjustment now.

Q. But that does include inventory adjustments, does it not?

A. Yes, it does.

Q. And the total debit figure, including those inventory adjustments, is, as you stated, some four million dollars odd; is that correct?

A. Just a moment. Yes, it does. The inventory adjustment is only \$406,000 out of it.

Q. In addition to those inventory adjustments, however, as I understand your position now, after your testimony of July 7, there are still additional inventory adjustments to be made; is that correct?

A. I would like to make an explanation in connection with the previous question. This \$4,000,000 debit is made
6254 up of all kinds of debits. You understand that. The adjustments that were made are as follows: Elimination, depreciation capitalized on property purchased, inventory adjustments, transfers from and to utility plant in service accounts, transfers to other accounts.

TRIAL EXAMINER. They are all debit items?

The WITNESS. That is right. I want to make sure that that is not all inventory adjustment of four million dollars.

By Mr. SLAFF:

Q. Have you completed your answer?

A. Elimination of capitalized unproductive deeper drilling, elimination of arbitrary rig charges, other kinds of adjustments and miscellaneous adjustments, and so on. I want to make that clear before we go ahead.

Q. Yes, of course. All those adjustments are developed from the inventory which you made of the property of the Hope Company; that is correct, is it not?

A. All of those adjustments are adjustments made to the company books.

Mr. SLAFF. Will you please repeat my question?

(Whereupon, the pending question, as above recorded, was read by the reporter.)

A. No; that is not correct.

6255

By Mr. SLAFF:

Q. Well, why did you change the books? What was there that led you to change the figures stated on the books?

A. Well, we reconciled the books with an inventory that was made in the field.

Q. All right.

A. I am not done yet.

Q. Go right ahead.

A. And the amount that is reflected in this \$4,000,000 is a correction to the books.

Q. Certainly.

A. To that there were other inventory adjustments which were not included in the company books, and which were included by me on these direct material and labor costs not previously capitalized.

TRIAL EXAMINER. These adjustments were made then in order to reconcile the books with the inventory; isn't that correct.

A. As far as we can do it from the books, but there were other inventory adjustments. For instance, we went out to the field, we might have found a house, and that house was not shown on the company books, not included in any place in the company books. Therefore I included it under the direct material and labor costs. It is included in that Exhibit 60 that we have been talking about.

6256

By Mr. SLAFF:

Q. Mr. Antonelli, do you have any such type of cost included in your inventory adjustments in column 6 of Exhibit 20, as you have just stated to the Examiner?

A. What type of —

Q. Property which you found out in the field which did not appear on the books. You have such adjustments in the totals included in column 6 of Exhibit 20, don't you?

A. I might have some that I was certain that the company capitalized; yes.

Q. Yes, well, then —

A. [Interposing.] I might. I don't know. I would have to search in my items to find them. I can't tell you offhand. There must be some.

Q. If it wasn't on the books, Mr. Antonelli, how was it capitalized?

A. I will tell you an example of that.

Q. Yes.

A. For instance, in a compressing station, we found a pump in the field and it was not found on the books. However, on the books we found a pump with another serial number. We weren't sure that was the pump that we were talking about and, inasmuch as the policy of the company has always been to capitalize pumps (we never found a pump expensed) we 6257 did include the pump in this adjustment column as a correction to the books. That is the only kind of examples that were included under the adjustment column.

TRIAL EXAMINER. Didn't you assume that that pump had already been capitalized?

The WITNESS. No, because—yes; but inasmuch as we didn't know what pump it was we eliminated—we included in our inventory everything that we were able to say a hundred percent that that was the item. Now, we eliminated from the books all items that we couldn't a hundred percent tie down to serial numbers or something like that.

Mr. MILDE. In that illustration, Mr. Antonelli, you would write out in the books a pump without a serial number?

The WITNESS. Yes.

Mr. MILDE. At whatever cost it was?

The WITNESS. That is right. And substitute this one that I found out in the field.

Mr. MILDE. With whatever its voucher cost was?

The WITNESS. That is right. No duplication or —

TRIAL EXAMINER [Interposing]. All right.

By Mr. SLAFF:

Q. So you did, of course, deem it important in your determination of original cost to make a careful study of the company's prior practices with respect to either capitalizing or expensing items of property, did you not?

A. Well, to that extent, yes. I made a study and I did find that in case of pumps or items of that type, the company always did capitalize those items. That was part of my study.

Q. Yes; then we are in agreement, are we, Mr. Antonelli, or tell me whether we are, that in determining the original cost of a natural gas company's property, it is important to make a determination in advance of what has been the company's policy and practice with respect to expensing or capitalizing items of property?

A. Well, it did not make any difference to me as far as determining original cost. The only thing that I was very much concerned about was that I show the picture very clearly. If the company capitalized the items, we put them under the capitalized cost. If we couldn't find it, then we show it under cost not previously capitalized, or under direct material and labor cost not capitalized by the company books. That was just a matter of setting the cost at each proper column. I could have done it the other way; show one total.

Q. Well, Mr. Antonelli, you didn't make that determination just for the sake of making it, did you?

A. Oh, no —

Q. [Interposing]. You had a purpose?

A. I had a purpose and the main purpose was that when in the future the company set up their continuing property records, they could utilize all my working papers to the best advantage.

Q. And what is more, in your judgment, you couldn't come to a proper determination of original cost, according to your own lights, without making such a determination of the company's policy in the past; isn't that correct?

A. What policy are you referring to?

Q. Whether particular items were to be expensed or capitalized.

A. Well, If I found that the company had always capitalized —

Q. [Interposing]. I wonder if you can answer the question?

A. I am trying to answer it.

TRIAL EXAMINER. Read the question, please.

(The question was read by the reporter.)

TRIAL EXAMINER. You can answer that "yes" or "no," can't you.

The WITNESS. Yes; I did make a study to find out what 6260 items were capitalized and what were expensed.

By Mr. SLAFF:

Q. And the reason that you made that study, Mr. Antonelli, was, was it not, that you could not come, in your own judgment, to a proper determination of the original cost of this company's property without making such a study?

A. No, sir; that didn't have anything to do with my reasoning. As I said before, the reason that I did it that way was to prepare the ground for the company to set up their books in accordance with the new code of accounts.

Q. What were they supposed to set up on their books in accordance with the system of accounts?

A. In accordance with the system of accounts they were supposed to show the adjustment—in other words, the difference between the book cost and the original cost of property constructed by the company in Account 107, Plant Adjustment.

Q. So you had to make this determination of the company's policy as to capitalizing or expensing items in the past in order that the company could properly set up on its books the original cost of its properties; isn't that right?

A. Well, I don't know that; the company set up their books in accordance with the new code of accounts.

Q. Well, can't you answer the question just as I have put it, Mr. Antonelli?

6261 Mr. MILDE. Well, I submit he has answered all the questions fully, and just because you slip in a few different phrases doesn't change the answer in the slightest.

Mr. SLAFF. I don't want him to change his answer, he can stick by his guns as long as he wants to, as long as he thinks his guns are right. I don't want him to change a thing, but I think he can answer the question directly.

TRIAL EXAMINER. Read the question.

(The question was read by the reporter.)

Mr. SLAFF. The question is susceptible of a direct categorical answer.

TRIAL EXAMINER. They couldn't have set them up in that manner except on the basis of your study, could they?

The WITNESS. Yes; on the basis of my study they could set up their books in accordance with the new code of accounts; yes.

By Mr. SLAFF:

Q. And in accordance with that system of accounts, show the original cost of their property; isn't that correct?

A. Well, I will have to explain that a little bit. This continuing property record, or the new books, will show in one column the original cost and in another column it will show the book cost; and in another column it will show the amount that has been previously capitalized. It shows all of those three amounts. It will show the book cost, it will show the items 6262 not previously capitalized, and it will show the original cost. It will also show the adjustment, the 107 adjustment, and it will show the 100.5 adjustment, the Plant Acquisition Adjustment.

Q. Well, I don't know that that explanation was called for by the question, but I am glad to have it on the record. Now, I would like to have the question answered, and I will repeat it for you, Mr. Antonelli. Isn't it a fact that you had to make a determination of the company's policy in the past with respect to capitalizing or expensing different types of property in order that the company might be able to set up on its books, in accordance with the presently controlling system of accounts, the original cost of its properties?

A. Yes; I did make a study to find out what items were capitalized and what items were expensed.

Q. And wasn't that study necessary for the purpose which I have just indicated?

A. It wasn't necessary as far as determining the original cost for Exhibit No. 20, no; but it was necessary for the company in setting up their continuing property records. We were trying to do two jobs at one time.

Q. But, Mr. Antonelli, in setting up the continuing property records, you have got to start with original cost, have you 6263 not, and then make your adjustments that you have been describing?

A. Oh, you can do it many ways.

Q. Well, isn't that the way you did it?

A. Well, are you referring to the original cost or the continuing property records now?

Q. To your continuing property records, to the statement on the company's books, that is to appear on the company's books.

A. Well, in that case you show your original cost, and you show your adjustments, and you show items not capitalized,—previously capitalized, and you show 107 and 100.5.

Q. And in order to show that original cost on the company's books, didn't you have to make this determination as to what the company's policy was in the past with respect to capitalizing or expensing different types of property?

* * *

6267 The WITNESS. As far as setting up the books, I did have to make that study, but as far as determining the original cost for this Exhibit No. 20, it wasn't necessary.

By Mr. SLAFF:

Q. Now, are you planning to set up any different original cost on the company's books from what you have presented here in this case?

Mr. MILDE. I object to that.

Mr. SLAFF. Well, the reason I ask that—I have no hesitation in stating it—is because I understand that he says it was necessary, in order to set that up on the company's books, but wasn't necessary here. So, I want to know if there is any difference
6268 between what he proposes to set up on the company's books, and what he presented here, as to original cost.

The WITNESS. Well, I am just gathering information and getting—as Mr. Milde said—the figures ready, but I am not certain how those figures are going to be used.

By Mr. SLAFF:

Q. It is sort of nice that Mr. Milde said it for you, isn't it?

A. Oh, no.

Q. Mr. Antonelli, regardless of how they may be used by someone else, you have very definite ideas as to how they should be used, don't you?

A. I don't believe anybody knows just exactly how they are going to be used.

Q. No, no, Mr. Antonelli, but you have your judgment as to how the figures should be used; isn't that right?

A. Well, everybody has ideas, but as far as this case is concerned, I just don't know how they are going to be used.

Q. Aren't you posting on your continuing property records that you are setting up or proposing to set up for the company the same original costs that you show here in this case?

A. We are posting only certain columns, not all of the columns,—we are not filling out all the columns.

6269 We have posted the description, and we have posted the book cost because we know that that isn't going to change; and we have posted some other columns, but we haven't finished anything, and we are not going to finish anything until somebody decides what is going to be done with it.

Q. Now, then, will you tell me, Mr. Antonelli, whether in your judgment, as you view the situation, the original cost to be set up on the company's books is any different in your conception today from the original cost which you have presented here in evidence?

* * *

6272 The WITNESS. Well, my original cost is set up in such a way that it has different columns including the amounts
6273 that came from different places, and it was done with the purpose in mind that the company would pick up and choose or rearrange the columns in any form they wanted and decide what they were going to set up on their books after it was decided what "original cost" is.

TRIAL EXAMINER. After who decided what original cost is?

The WITNESS. Well, the company or the Commission, or after it was decided definitely what original cost was.

6274 Mr. MILDE. You mean original cost under the Code of Accounts?

The WITNESS. Yes, original cost under the Code of Accounts. I determined the original cost, and I set up the capitalized items under the capitalized columns, and I set up the expensed items under the expensed columns, and I set up all the rest of the items in separate columns, and that is the way it is shown.

Now I can't tell what it will be, what will be the original cost as per the continuing property records, or not.

By Mr. SLAFF:

Q. Mr. Antonelli, I am not asking you as to what anyone else may determine original cost to be, whether it be the court or commission or anyone else. I am confining myself solely to your judgment today, your conception today, and I am asking you whether today, in your conception, there is any difference between the original cost which you have presented here in evidence, and the original cost to be set up on the company's books? Will you please tell us?

A. As far as the totals are concerned, there wouldn't be any difference. As far as the classification, there might be. Maybe

the Commission will order certain items to be charged to 107, and others charged to 100.5, and so on.

Q. But as far as you are concerned—forget, Mr. Antonelli, please, or disregard if you will, please, what the
6275 Commission may order done or what the court, some court, may order done, and confine yourself, in your answers, just to your conception—isn't it a fact that the original cost, as you have presented it here in evidence, is, in your judgment, the original cost which should be set up on the company's books as you have here presented it?

A. Well, I say that the original cost is the original cost. Now I don't know how it is going to be set up.

Q. I know you don't know how somebody else is going to pick up where you left off, but I am asking you whether it isn't your judgment that the original cost which you have presented here in evidence, is the original cost which should be set up in the company's books in the same manner as you have here set it up in evidence?

* * *

6276 The WITNESS. I don't know what should be set up on the books. The original cost, as I determined it, I think is the right original cost, and it is set up in such a manner that you can take any kind of figures or combination of figures, but what should be set up on the books, I can't say, I don't know. It just never occurred to me, and I didn't have to know it.

By Mr. SLAFF:

6277 Q. Mr. Antonelli, aren't you in charge of the company's reclassification study?

A. Yes, sir; I am.

Q. Isn't that to reclassify the amounts that should be set up on the company's books?

A. Yes, sir, and we have gone as far as we can, but we haven't finished the job, and we don't know what to do, we are waiting now.

Q. And you have a judgment today, don't you, as to whether the original cost as you have determined it, in evidence, and presented it here in evidence, is any different from the original cost which, in your judgment, should be set up on the company's books?

A. As far as the total original cost is concerned, there shouldn't be any difference, and can't be any difference. That is the cost.

But how it is going to be set up on the books, that is a different matter.

Q. Mr. Antonelli, with respect to the reclassification study which you are making for the company, and the cost of which is some several hundreds of thousands of dollars, as I understand it, don't you today have any idea as to whether there should be any variation in the detail of the original cost between the way you have presented it here in evidence, and the way it should be set up on the company's books?

A. What detail are you referring to?

6278 Q. Any detail.

A. Yes; but there are all kinds of details. Are you referring to units of property, or to costs, or what?

Q. All right, let's take the accounts to which the amount should be charged?

A. That doesn't mean anything to me.

Q. The accounts under which the amounts set up should be set up—does that mean anything to you?

A. What accounts?

Q. Do you know what gas plant accounts are?

A. Yes; and I don't understand what you mean. Are you talking about adjustment accounts or plant accounts, or what?

Q. All accounts.

A. That doesn't mean anything, now.

Q. All right, you have presented certain original cost figures in evidence here, have you not?

A. Yes, sir.

Q. Will you tell us how you set them up by accounts?

A. Do you refer to Exhibit No. 20 now?

Q. Yes; 20 and 60.

A. All right, I classified them as to kinds of property, land and rights-of-way and leases, and followed this new Code of Accounts.

Q. Now in your judgment, should those amounts be classified any differently on the books of the company?

6279 Q. Well, not knowing what the Commission is going to decide, I will have to say again that I don't know.

Q. Do you have any judgment today with respect to that? I mean, out of all the close to three-quarters of a million dollars that has been spent for reclassification today, and the spending of which, I take it, you have been supervising, do you mean that you haven't yet evolved a judgment as to whether there should

be any difference between the way the amounts were set up in your original cost study in evidence here, and the way they should be set up on the company's books?

A. Well, this here is only a determination to show the original cost for rate-making purposes, and the other is something else.

Now the other has to be set up in accordance with the Code of Accounts. Now I will tell you how that was done. I might describe the columns that we used. But that is all I can say. I haven't got any judgment of what is going to be done. I know that in one column—

Q. (Interposing.) Let me break in. Do you have any judgment as to what should be done, that is the question that I have been trying to have your answer?

A. If I knew what should be done, we could have finished the job a long time ago. We don't know.

Q. You mean you just don't have any idea of what, in
6280 your judgment, ought to be done in that respect?

A. Well, we have been trying very hard to find out what should be done.

Q. And as far as you are concerned, you are still in the dark; is that right?

A. We have all the figures, we are just waiting for a decision.

* * *

MR. SLAFF. Well, are you still in the dark, Mr. Antonelli, in your own mind, as to what should be done with respect to setting up original cost on the company's books?

A. Well, I can give you my own personal opinion. Now that is my own personal opinion. We show first the material, the labor and the overheads, and the total original cost as I
6281 determined it.

TRIAL EXAMINER. You mean as you determined it in this case?

The WITNESS. Yes, sir, that is recorded to the penny.

After that—it is my own opinion, now—I will show the amount that is not previously capitalized on the company's books. It will show a column which is exactly the amount of the adjusted book cost that we have in here; and also it will show a column of the 107 adjustments which is Plant Adjustments to Property Constructed by the Company or Purchased from Non-Utilities; and another column, 100.5, Acquisition Adjustments, which is the difference between the original cost of property purchased from other utilities, and the purchase price.

Now that is my personal opinion of what should be done on the books, and the books will show my original cost, they will show the book cost; we could get the adjusted book cost; we could get the non-capitalized items; and we could get the adjustments, the plant adjustments, I mean; and the acquisition adjustments.

It gives a complete picture of what was done, and that is what we are doing, but we haven't gone beyond a certain stage because we don't know what to do next.

By Mr. SLAFF:

Q. Well, that is exactly what you have done in this case, 6282 in evidence, in your exhibits here in this case, Mr. Antonelli, is it not, except that certain of the columns shown on page 31 you show, and you propose to show, in Account 107, and certain in Account 100.5?

A. There is no 107 and 100.5 here.

Q. That is right, you propose to show the amounts shown here in certain of the columns on page 31 of Exhibit 20, in Account 107 and in Account 100.5, on the company's books?

A. This statement here—I am referring to Statement B, now, of Exhibit No. 20—shows the relation of the book cost to the original cost and also shows, separately, the property constructed by the company and purchased from other utilities, and it shows what was on its books, what were the adjustments, what was capitalized, how much was overheads, and so on.

Q. That is right. In effect, Mr. Antonelli—

A. (Interposing.) I think it is an intelligent way, at least I thought it was an intelligent way, and tried to make it so clear that anybody would understand what it is. I could have bunched all the figures and given you just original cost, and it would probably have been just as good.

Q. I am not at the moment implying that this is not an intelligent way of setting out the results that you came to. What I am asking you, if you will listen, is this: Isn't it a fact that what you have told us as to what you propose to have set 6283 up on the books, in your opinion, is just what, essentially, you have done here in your Exhibit 20, except the amounts in, say, columns 7, 8 and 9 and 10 of Statement B on page 31, will be included in Account 107?

A. No; 107 is plant adjustments—

Q. (Interposing.) Well, let me put it this way: The difference between original cost, as you determined it, and book cost,

in so far as the amounts in those columns enter into that difference, will go into Account 107; is that right?

A. Well, I think it will go; I don't know.

Q. That is your judgment?

A. That is my opinion; I don't know.

Q. And the difference between purchase price and original cost, with respect to prior utilities, will go into Account 100.5; that is right, isn't it?

A. That is my opinion, that is in accordance with the Code of Accounts, that is my opinion, but I don't know if they are going to do it or not.

Q. Then if I may summarize, it is your judgment and opinion today that the original cost to be set up on the company's books is the original cost as you have determined it for purposes of this case, and as you have explained a few answers back it should be set up on those books?

A. No, sir; I didn't say that. I said how I did it, and what I thought it was going to be, and what was my personal opinion.

6284 Mr. SLAFF. Now, will you read my question, please?

(The question was read.)

By Mr. SLAFF:

Q. Isn't that a correct summarization?

A. The original cost that I set up in Exhibit No. 20 is to show the actual dollars paid by this company, and the amounts paid by the prior companies for property purchased from other utilities. That is the actual amount spent, what was the original cost. That was the reason for Exhibit No. 20; and the continuing property record, although utilizing all the same figures, they are set up differently, and I don't know what is going to be done with those figures.

Q. They are set up in somewhat different form, but all the basic facts and factors and figures are the same, are they not?

A. Sure they are, but as I said, my purpose was to determine the original cost of these properties, that is all, and that is all I had to do.

Q. I think you have told us that once or twice.

A. I have said it many times.

Q. Now then, in order to set up those facts on the company's books, you had to make a determination as to what had been the company's policy in the past with respect to expensing or capitalizing different kinds of property, isn't that correct?

6285 A. Well, naturally I analyzed all of the records and if I found the items under capitalized items, I put them under capitalized items. If they were expensed, I put them under expensed items. As I said before, we were trying to kill two birds with one stone. So I did find out and determine what was the policy of the company in regard to expensed items and capitalized items.

Q. And it was necessary for you to make that determination, was it not, in order to arrive correctly at your results?

A. It wasn't necessary as far as Exhibit No. 20 is concerned, no.

Q. We are talking about the costs that are to be set up, in your opinion, in your judgment, on the company's books.

A. I thought you were talking about Exhibit No. 20 all the time.

Q. Well, now, concerning yourself with the costs to be set up on the company's books, in your judgment it was necessary to make such a determination of company policy in the past with respect to expensing or capitalizing items, was it not?

A. Yes; certainly it was.

Q. You have presented here also Exhibit 99, which is entitled "Data Furnished the Federal Power Commission at its Request as to Amounts of Direct Material and Labor
6286 Costs, Unloading, Hauling and Warehouse Handling Costs, Indirect Field Costs and Overhead Costs not Capitalized, for Major Accounts, Classified by Years during which these Costs were Incurred by the Company," and that exhibit relates, does it not, to the determination, among other things, of overhead costs shown in your Exhibit 20?

A. This Exhibit was a request by Mr. Smith, and relates to direct labor costs not capitalized, and overheads.

Q. And the overheads to which it relates are the overheads which are shown in your Exhibit 20, is that correct?

A. Yes, sir.

Q. And the method of determining those overheads is shown in your Exhibit 20-A, is that correct?

A. The method was explained in Exhibit 20.

Q. Let me put it this way. Your method is stated in Exhibit 20, and illustrated by Exhibit 20-A, is that correct?

A. Well, it is stated and illustrated in Exhibit 20, and this (referring to Exhibit 20-A) is one page of the details of Exhibit 20.

Q. That is a summation sheet that illustrates your method, isn't it, and shows the percentages that you arrive at, that Exhibit 20-A?

A. Yes, sir.

Q. Your determination of overheads to be applied to construction was on the so-called dollar for dollar method, is that right?

A. As far as the general overheads are concerned; yes, sir.

Q. That is on the basis that a dollar of construction took the same amount of general overheads as a dollar of operations of the company, is that essentially correct?

A. Yes.

* * *

Mr. MILDE. Exhibit 20-A?

Mr. SLAFF. No; this Exhibit 99, which is the detail, and I want to get some statement here with respect to his underlying assumptions.

* * *

By Mr. SLAFF:

Q. I want to know, Mr. Antonelli, whether, in your conception, the construction operations of the company are essentially a by-product operation?

A. I couldn't answer that question; I don't know.

Q. Well, let's go at it another way. It is a fact, is it not, that the principal business of the company is to operate its properties?

A. Well, that is outside of my line, I don't want to pass judgment on that kind of a question.

Q. Well, isn't that necessary, Mr. Antonelli—that is to say, is not a judgment with respect to that necessary in order to arrive at a proper basis of allocating overheads between construction and operations?

A. Oh, they do operate the company, and also supervise new construction work.

Q. But isn't it a fact that the principal business of the company is to operate its properties?

A. Yes, sir; it is.

Q. And then isn't it also fair to say that the construction operations, as carried out by the Hope Company, are what might be termed "by-product" operations?

A. Oh, no; in this case I have found out that the company's supervising forces spent a great deal of time in new construction work.

Q. Then as I understand it —

A. (Interposing.) As a matter of fact, they spent more time than in operation.

Q. Then as I understand your last answer, the construction operations, as carried out by Hope, are not what might be termed "by-product" operations?

6289 A. I am just talking from experience in going through the records, and I noticed that the company's supervising forces were spending a great deal of time in new construction work.

Q. Then you would not term the construction operations of the company "by-product" operations?

A. Well, I don't know what you would call them, whether you would call them "by-product" or not, but they spend time on new construction work, and they spend time on operation. I don't know which is the "by-product."

Q. Well, is the construction work incidental to the operations, or is it the other way around, or are they on a parity of importance to the company?

A. I don't know, I can't answer that question.

Q. Well, Mr. Antonelli, wasn't that determination necessary to be made in order to determine the proper basis for allocating general overheads?

A. The basis was that after a great deal of study—

Q. (Interposing.) No, no, no—I have asked you whether that was necessary; I haven't asked you, Mr. Antonelli, what your basis was. I have asked you whether a certain determination on your part was or was not necessary to your determination as to how these general overheads were to be allocated. Will you please respond to that?

* * *

6290 The WITNESS. Well, if you knew how these overheads were worked out, you wouldn't ask me that kind of a question.

By Mr. SLAFF:

Q. I have asked you that question—suppose you answer it?

A. That is not the way I determined these overheads.

Q. You can't answer that question?

A. That is not the way I determined the overheads.

Q. Can you answer the question?

TRIAL EXAMINER. Was it necessary or was it not—that is all.

Mr. MILDE. Well, Mr. Slaff has a lot of words in there which may mean something, but they obviously don't mean anything to Mr. Antonelli.

Mr. SLAFF. I will reframe the question.

* * *

By Mr. SLAFF:

Q. In order to make a determination of how general overheads were to be allocated between operations and construction, didn't you have to come to a conclusion as to whether construction was a subsidiary part of the company's whole business, or whether it was on a parity with the operations of the company?

6291 A. No, I did not.

Q. And that was of no importance or consequence to you in your determination of overheads, is that correct?

A. No; not the way I determined these overheads.

Q. Now then, your assumption was, was it not, that a dollar of construction took the same general overheads that a dollar of operations took?

A. Yes, sir.

Q. And is it your answer that it takes that same dollar, regardless of whether construction is a subsidiary part of the company's whole business, or whether it is on a parity with the operations of the company?

Mr. MILDE. I want to object to that question unless Mr. Slaff states to the witness what he means by the phrases "subsidiary part" and "on a parity with the operations of the company."

Mr. SLAFF. Well, I have tried to use the term "byproduct operation." The witness didn't seem to have much of a concept of the term "byproduct operation."

Mr. MILDE. I don't understand what you mean by a subsidiary or a parity.

Mr. SLAFF. I think you understand, Mr. Milde, what I mean by "byproduct operation."

Mr. MILDE. Not as applied to a natural gas operation.

6292 TRIAL EXAMINER. If you used the expression "purely incidental," would that mean anything?

Mr. MILDE. That seems a little more like something that has some meaning. I don't know whether it would to Mr. Antonelli—

Mr. SLAFF. (Interposing.) Of course, if my friend Milde here wants to characterize the testimony of his witnesses as meaningless, far be it from me to dissuade him from that, but I have used that term simply because his witnesses have been using that term and have been describing the construction operations of the Hope Natural Gas Company as "by product operations."

When it comes to determining whether or not one of the exhibits which the Commission has introduced was proper, Mr. Rhodes was very eloquent that our exhibits don't show full costs, because construction is just a "by product operation," construction is just incidental to the operations of the company. And I used those terms only because I thought that they were intelligible at least to the company people.

* * *

By Mr. SLAFF:

Q. Mr. Antonelli, are you familiar with what is meant by the "incremental basis" of allocating overheads?

6293 A. No, sir; no.

Q. Have you never heard that term used, Mr. Antonelli, with respect to overheads?

A. I might have, but I don't recall it.

Q. I mean you, right now, have no knowledge whatever as to what is meant in the accounting or engineering profession by the term "incremental method," with respect to prorating overheads, is that right?

A. Do you mean by that, breaking up the overheads to various parts of it—increments?

Q. No; I mean by that that an operation which is a subsidiary operation, for example construction, possibly by an operating company, shall take only those additional overheads which are required by that work, and that the principal occupation of the company shall take the general overheads as they exist normally?

A. Yes, sir; I have.

Q. That is to say, you are familiar with that use of the term?

A. Yes, sir.

Q. You did not in this case pro rate overheads, your general overheads, on an incremental basis, did you?

A. No; I allocated them on a dollar cost basis between operations and new construction work. I did that because that was the only way possible to do it, having in mind the records
6294 available that were available.

Q. And did you make any determination with respect to how overheads had been charged in the past?

A. Well, in going over the company's records, I found that general overheads were not recorded on the company's records.

Q. That is, in the fixed capital records?

A. In the fixed capital records, yes; that is correct.

Q. That is to say, overheads had been expensed, is that correct?

A. That is right.

Q. Now, turning for a moment, Mr. Antonelli, to the problem of acquisitions by the Hope Company, you are familiar with the Clarksburg Light & Heat Company acquisition?

A. Yes, sir; I am.

Q. Was that an affiliated company?

A. Yes, sir; it was an affiliated company.

Q. And that was purchased, was it not, for a consideration which consisted of some \$10.67 in cash and 13,693 shares of Hope Natural Gas Company common stock; is that correct?

A. I don't know anything about that. I wasn't interested to determine how the sale took place.

Q. Did you testify that the Hope Company had not recorded the original cost of this property on its books?

A. I don't recall, but I think I testified that on the 6295 company's books, the Clarksburg Light & Heat Company is recorded at vendor's book cost, and the difference between this cost and the purchase price was added to Hope's depreciation reserve. I believe I testified to that—but that is the fact.

Q. Now do you know, or what is your testimony with respect to whether or not the property of the Clarksburg Light & Heat Company was recorded on the books of the Hope Company at original cost?

A. The property was recorded at book cost, at vendor's book cost, of \$2,233,252.76.

6296 By Mr. SLAFF:

Q. You stated as follows at page 5049 of the transcript, record of July 7:

"Question—," Do you want to have that before you?

A. Yes.

Mr. MILDE. [Handing.]

By Mr. SLAFF:

Q. Beginning at line 4:

"Question: Did you ever find the company recorded or attempted to record any estimate of the original cost of purchased property at the time of acquisition?"

"Answer: No, sir."

You so testified, did you not?

A. Yes, sir; I did.

Q. All right. Now, let's go to the—and was that supposed to apply to the Clarksburg Light & Heat Company acquisition as well as others?

A. It applies to all purchases.

Q. Now, you made a study of that purchase, did you?

A. Yes, sir; I did.

Q. All right. Now, what was the consideration given by Hope Company for the property which was acquired?

A. I went back to the vouchers and got the actual cost. That is all I was interested in.

Q. Did the vouchers show the consideration given by 6297 the actual cost paid by Hope Company?

A. This was a prior utility company and we had practically all of the records available.

Q. Well, did the vouchers show the——

A. (Interposing.) I had thousands of vouchers. I had to go by item—unit by unit and well by well—and found the cost. It wasn't necessary for me to go to purchase vouchers. Purchase vouchers don't show anything.

Q. Did you go to the purchase vouchers as you did in connection with the Flaggy Meadow acquisition you testified to on July 7?

A. I——

Q. (Interposing.) Did you or didn't you?

A. Yes; I have seen the purchasing voucher; yes.

Q. O. k. Now, what is the consideration recorded there?

A. Well, as I stated now, the cost to the vendor was—I mean the purchase price was \$1,369,310.67.

Q. That is the amount that was recorded in the books in the plant account, is that right?

A. Well, I would have to get the voucher before——

Q. (Interposing.) Yes. Will you do that?

A. Well, I haven't got it here.

Q. Well, I will put it this way to you, Mr. Antonelli: Suppose you answer to the best of your present information and knowledge and make any subsequent corrections that you deem

6298 fit. Is it not true that the consideration given by Hope for that property was some \$10.67 in cash and 13,693 shares of Hope common stock?

A. My recollection is that that figure is correct; yes.

Q. All right. Now, is it also not a fact that the value placed on that stock by the Hope Company was, at the time of issue, \$1,464,114.75?

A. Well, I am sorry. I don't know. I don't remember.

Q. You can verify that, can you not?

A. Well, yes.

Q. Do you have here any data from which you can verify that?

A. No. Not in this place.

Q. Do your assistants here have any such information?

A. No, sir.

Q. That consideration is shown on the purchase voucher?

A. I think it is shown; yes.

Q. Let me refresh your recollection, Mr. Antonelli, while I think of it. I show you a letter dated May 17, 1940, on the letter-head of the Hope Natural Gas Company, addressed to Mr. J. A. Hennig, Examiner in charge, Federal Power Commission, Clarksburg, West Virginia, and signed by George N. Reed, and ask you whether that refreshes your recollection as to the facts?

* * *

6299 Q. So, then, it is a fact that the consideration given by Hope for that property in addition to the \$10 of cash, was common stock which Hope valued at \$1,464,000. That is correct, is it not?

A. Yes; according to this letter; yes, sir.

Q. And that amount of consideration paid by Hope for this property was \$94,814.75 above the net book cost of the Clarksburg Company property, isn't that correct?

A. That is, according to this letter, that is correct. It states so.

6300 Q. And that amount, that difference, to wit: that amount of 94-odd thousand dollars, was recorded by Hope in a "property appreciation account," was it not?

A. That is what the letter states and I suppose that is correct; yes.

Q. And that represented, did it not, appreciation over the original cost of the Clarksburg Company's property as the Hope Company then conceived it to be?

A. No, sir.

Q. Isn't that correct?

A. No, sir. The book cost of the Clarksburg Light & Heat Company did not reflect the original cost of the Clarksburg Light & Heat property.

Q. The book cost of the Clarksburg property did not represent the original cost as you now conceive that original cost to be. That is correct, is it not?

A. Now—and the fact is that it did not represent the original cost because all of the costs were not recorded. The well construction costs weren't recorded. It couldn't be.

Q. You have testified, Mr. Antonelli, that the Hope Company never recorded or attempted to record any estimate of the original cost of purchased properties at the time of acquisition, isn't that so?

A. I still say that that is so; yes.

Q. Now, you do not then conceive that the Hope Company, when it recorded 1,300,000-odd dollars in its plant accounts in the Clarksburg acquisition, was attempting to record the original cost of the company's property, is that correct?

A. I say they did not attempt to record the original cost of the property; no, sir.

Q. The \$94,000 entry that was made in an account called by the Hope Company, "Property appreciation account," was not, in your judgment designed to represent the appreciation in the property above original cost which had been paid for by the Hope Company, is that correct?

A. Yes, sir.

Q. Do you know what the "Property appreciation account" was supposed to represent?

A. No, sir. I wasn't interested and I didn't have any occasion to find out; no, sir.

Q. Mr. Antonelli, you weren't interested in finding out what that account paid before you testified flatly that the company never attempted to record any estimate of original cost of acquired properties, is that correct?

A. I still say that it didn't record any estimates——

Q. (Interposing.) No, no, no. Will you please answer the question.

* * *

6302 A. Yes, sir.

By Mr. SLAFF:

Q. That is correct?

A. Yes, sir.

Q. In other words you came to a determination of what the company had done or attempted to do on its books, with respect to a particular acquisition, without investigating all the entries that had been made by the company in connection with that acquisition, is that correct?

A. I investigated——

Q. [Interposing.] Now, is that correct or not?

Mr. SLAFF. I submit that can be answered categorically.

The WITNESS. I will answer it with reservation; yes.

By Mr. SLAFF:

Q. All right, so now——

Mr. MILDE [Interposing]. Wait a minute. Let him state his reservation.

Mr. SLAFF. That is just what I am going to get to.

By Mr. SLAFF:

Q. With reservations you can say that you can tell us whether the company attempts to record an acquisition at original cost, without investigating all the records made by the company in its books at the time of acquisition. That is correct?

6303 Will you please tell us whether that is correct and then if you want to state the reservation, go ahead?

A. Yes; with reservation, I will say, yes.

Q. Go ahead and tell us what the reservations are?

A. Well, I determined the original cost. I went to every voucher that shows individual items, which were part of the Clarksburg Light & Heat Company, or any other prior utility, and made sure that the actual original cost was really the actual original cost, and not what was on the books, and I am a hundred percent certain that the company never made any estimates in any case. I do not know that the company had made no estimates.

Mr. MILDE. Of original cost?

The WITNESS. Of original cost; yes.

By Mr. SLAFF:

Q. And that is your sole reservation?

A. Certainly. I examined every voucher. I examined every item.

Q. That is, you examined everything except all of the accounts of the company?

A. I was interested in individual items. I wasn't interested in the purchased properties as they existed in 1929 or what not. I was interested in the items that existed on December 31, 1938.

Q. That is right.

6304 A. Now, that was a utility. What I had to do is go to the vouchers and find the actual cost of these properties.

Q. Yes.

A. While I was doing that I was comparing with the books and I am darn sure that the company never made any estimates on original cost.

Q. You can tell us that what the company recorded or attempted to record in its books at the time of acquisition, with respect to original cost, without making a complete examination of the company's books; isn't that so?

Mr. MILDE. I object to that question.

Mr. SLAFF. Well, if it is not so, he will tell me so.

Mr. MILDE. It is a repetition that has been asked at least five times. Mr. Antonelli has stated that he has examined all the books and records and he asked him——

Mr. SLAFF [Interposing]. He stated directly contrary to that, Mr. Milde.

By Mr. SLAFF:

Q. Did you examine the property acquisition account?

A. I examined every voucher, every record, every book that was necessary to examine.

Q. Did you examine the property appreciation account record——

A. [Interposing]. Examined——

Q. [Interposing]. Just a minute. Relax.

6305 (Continuing.) Record, to determine what that purported to be. Didn't you testify just a few minutes ago you did not?

A. I don't think I did, because I got all the costs that it was necessary to get in order to determine the original cost. I can show a voucher for everyone of those costs. That is all that was necessary for me to do. I didn't have to do unnecessary things.

Q. Now, let's get back to the property appreciation account and the record thereof made by the company.

* * *

Q. Now, did you or did you not make an examination of the records in the property appreciation account, to determine what that was supposed to represent at the time it was recorded in the company's books?

A. Personally, I did not.

6306 Q. Now, did any of —

A. (Interposing.) Excuse me, I haven't finished.

Q. I submit he has finished. That is all I asked him, whether he did or didn't.

A. I was just going to say, somebody else might have done it.

Q. That is the next question I was going to ask you, Mr. Antonelli. You will get it.

A. Excuse me.

Q. Did any of your assistants do that and report to you in respect to that?

A. I don't recall, but I assume that somebody did look at this appreciation item, but I can't recall offhand. There were so many things to remember.

Q. What does "property appreciation" mean, Mr. Antonelli?

A. Well, it is probably an increasing of value or what not.

Q. Well, it means increasing value rather than what not, doesn't it?

A. Well, increasing cost, let's say.

Q. Increasing cost over what?

A. Over some other cost, I don't know.

TRIAL EXAMINER. Over what?

The WITNESS. Over another cost.

TRIAL EXAMINER. The increase of one cost over another
6307 cost?

The WITNESS. Yes.

By Mr. SLAFF:

Q. And the cost that was recorded on the Hope Company books was the book cost on the books of the Clarksburg Company, isn't that so?

A. Yes, sir.

Q. And the depreciation reserve was also picked up, was it not?

A. Yes, sir.

Q. And you are telling us now that you know, now, that, back in '29, when the company recorded those figures on its books, it was not attempting to record on its books the original cost of those properties, is that correct?

A. Oh, yes. I am very certain that they weren't attempting to record the original cost. They were recording the book cost of Clarksburg Light & Heat Company. A hundred percent certain.

Q. And is one of the factors in your determination, the fact that no consideration was given to well construction costs at the time of the acquisition, because it had been the practice of both companies to expense such costs?

A. Yes; it is, because, without having the full costs of these wells, you couldn't get your original cost.

Q. In other words, then, what you are saying is that
6308 the Hope Company, at that time, was not attempting to record on its books what you presently conceive to be original cost, as you have testified to that, is that right?

A. Yes; and what anybody will think original cost is, the full original cost.

Q. Well, let me see if I get you straight, so the record will be clear Mr. Antonelli: The Hope Company did not record on its books, with respect to Clarksburg acquisition, what you presently consider the original cost—right?

A. Yes, sir; that is right.

Q. It did not attempt to record on its books what you presently consider the original cost—that is correct?

A. Yes, sir; that is correct.

Q. Illustrative of that is the fact that it did not record on its books any well construction costs which had been expensed previously by the Clarksburg Company, is that correct?

A. Yes, sir.

Q. Now, do you know whether in 1929 the Hope Company considered original cost to be what you now consider it to be?

A. I don't know what the company's mind was in 1929, I am sure.

Q. That is right. So that you do not know, Mr. Antonelli, whether in 1929 the company attempted to record on its
6309 books what it then considered to be the original cost of acquired properties, isn't that correct?

A. No, sir; because it was very plain it wasn't original cost, didn't include all of the costs. How could it include original cost when you had only part of the costs?

Q. Mr. Antonelli, you know that conceptions of what is original cost differ.

A. There is only one original cost, the full cost.

Q. There is only one original cost and Antonelli is its prophet. Mr. Antonelli, is it not a fact, as demonstrated in this case, that there is difference of opinion as to what represents actual original cost?

Mr. MILDE. Between reasonable men?

Mr. SLAFF. I will add, between reasonable men and men equally competent in the field of engineering and accounting with Mr. Antonelli.

The WITNESS. Well, I can't conceive the idea that if a person paid \$2,000 for a well and capitalized \$1,000, that \$1,000 is the cost of the well. It is \$2,000. It is plain thinking.

By Mr. SLAFF:

Q. Now, Mr. Antonelli, we are wasting a lot of time. Now, isn't it a fact, Mr. Antonelli, that there is difference of opinion between equally competent people as to what is original cost?

6310 A. Yes; there is, from a bookkeeping point of view and accounting point of view, yes; but not as to actual cost. It couldn't be anything else but just what you paid for it.

Q. All right. Now, is it not a fact that in 1929, what the Hope Company then conceived or considered to be original cost of property was different from what you today consider to be original cost of that property?

A. My idea is that I don't think the company ever considered that it was original cost. They just set up the book cost. I don't think they talked anything about original cost.

* * *

A. I don't know what the company thought about it.

By Mr. SLAFF:

Q. Then you cannot tell us whether the Hope Company in 1929, or at any date in the past, with respect to acquisition, attempted to record in its books what it then considered to be the original cost of the properties which it was acquiring, is that so?

A. All the investigations that I made shows that the company never attempted to show original cost on their books of the property that they purchased. They showed the purchase price.

6311 Q. Mr. Antonelli, you have testified just now that you don't know what the company considered to be original cost in the past, is that right?

A. The facts show —

Q. (interposing). Is that or is that not right, have you so testified?

A. Yes, sir; with qualifications.

* * *

Q. Now, then, with respect to acquisitions made in the past, is it not a fact, then, that you cannot tell us whether the company did or did not attempt to record on its books the original cost of those properties acquired as it then considered original cost?

A. My study convinced me that they did not attempt to set up the original cost, and I can prove it to you.

Q. You are in luck, Mr. Antonelli. Your study convinced you that the company did not attempt to set up original cost as you today conceive original cost to be, and to mean, isn't that right?

A. No, sir. I can prove to you that what they set on the books was the purchase price and not the original cost. I am
6312 talking about facts now. I can prove it to you with figures.

Q. We know that purchase price went on the books, Mr. Antonelli, and obviously that is what we are coming to, if you can testify to it, as to whether or not that purchase price did or did not represent original cost. Now, then——

A. (interposing). It was very plain it didn't represent original cost.

Q. It was very plain to you, Mr. Antonelli, that it did not represent original cost, as you now conceive and represent original cost to be, isn't that what you mean to say?

A. It is very plain that what they set on the books is not the actual price that the predecessor paid for it.

Q. Well, let's start again and just see if we can develop this in reasonable sequence, Mr. Antonelli: You have testified, have you not, that you do not know what the Hope Company considered original cost to be?

A. Yes, sir.

Q. At the time of its various acquisitions?

A. Yes, sir.

Q. All right. If you do not know what the Hope Company considered original cost to be at the time of acquisition, now you represent, do you, that you can tell us whether the Hope Company recorded or attempted to record original cost of acquired properties as it then conceived the meaning of the term?

* * *

6315 The WITNESS. No; I can't.

By Mr. SLAFF:

Q. All right. So then all your testimony with respect to whether or not the company recorded on its books or attempted to record on its books the original cost of acquired properties, refers only to original cost of acquired properties as you now conceive original cost, is that right?

A. It refers to the actual original cost. I mean, the amount of money the predecessor paid.

6316 Q. Mr. Antonelli, someone other than you and I will decide what is the actual original cost?

A. Well, I am saying that it refers to what actually somebody paid for the properties and not what was recorded on the books, or what was the purchase price.

Mr. SLAFF. Well, I wonder if the reporter would re-read my question, and I wonder if you would tell me, Mr. Antonelli, if that isn't, in the light of what you have just said, if that isn't a fair statement, as I have put it?

(Whereupon the pending question, as above recorded, was read by the reporter.)

A. Yes; that is right.

By Mr. SLAFF:

Q. All right. Let's for a minute turn to the Flaggy Meadow acquisition. Will you turn to the Fayette County Gas Company acquisition?

A. All right, sir. You mean in Exhibit 98?

Q. Well, just direct your attention to that, and then we will—you may have some papers in connection with that. In your determination of original cost of that property, what did you determine as the value per acre, and cost per acre, of the gas acreage of the company?

A. I used the purchase price, which I think it was \$14.50 per acre. I am not certain, but I think that was
6317 \$14.50.

Q. And that is the amount which is recorded on the company's books in connection with the acquisition of that property?

A. Of what is left of that property.

Q. Yes, sir. Did you record that amount—did you use that amount as representing the original cost of that gas acreage?

A. Certainly; yes.

Q. I see. As to that, that amount was entered on the company's books as original cost, was it not? The gas acreage in that acquisition.

A. In the case of leases, we set up the original cost—the original cost was the cost of—the purchase cost, put it that way, the purchase cost for leases purchased from other utilities.

6318 Q. Well, so that in that respect, at least, the company, as far as you are concerned, did record on its books the original cost of property acquired from prior utilities?

A. Yes. In this case exception was made, I think in accordance with rulings by the West Virginia Commission. I am not certain, but I had instructions by the company to do so.

Q. And you did the same thing, did you not, with respect to the acquisition from the Flaggy Meadow Gas Company? That is to say, you took as original cost the cost of gas leases, as recorded at the time of acquisition. Is that right?

A. We did this with respect to all of the purchased leases, and I said why we did it. We did it because we had special instructions in the case of leases.

Q. Well, of course you had no qualms about disregarding general instructions in the system of accounts, did you? I am referring specifically to instructions 2-(b).

A. No.

Q. So then you represented to this Commission that the original cost of the leases, if I may sum up—leases of acquired utilities—was the amount that had been recorded at the time of acquisition?

A. Yes, sir.

Q. All right.

A. And I said why.

6319 K. That is right. That represents a recordation by the company, does it not, on its books, of the original cost of that property? That is correct, is it not?

A. Yes, sir.

Q. So that, to that extent, at least, your previous testimony that the company did not record original cost of acquired properties on its books is in error. That is correct, is it not?

A. That is an exception and I say I gave the reason why we did that. We had special instructions.

6320 Q. And in the Fayette County Gas Company purchase, that represents about a third of the purchase price, does it not?

A. You mean now or at the time of the purchase?

Q. At the time of the purchase.

A. I think it was about \$200,000.

Q. Out of six?

A. Yes.

Q. Yes; that is right.

A. But we don't have \$200,000 now. We don't even have \$200,000 left in the entire Fayette County Company. We have only fifty leases.

Q. I understand that. Now, with respect to the Flaggy Meadow acquisition: When was that property constructed?

A. Constructed or acquired?

Q. Constructed?

A. Prior to 1902.

Q. Over what period prior to 1902?

A. Oh, I would say offhand—I don't know—I see a line here, 1895.

Q. When was the bulk of the property constructed, Mr. Antonelli?

A. Well, I can't say offhand. Prior to 1900. I can't guess; I can't say.

6321 Q. That property was acquired in 1902, was it not Mr. Antonelli?

A. That is right.

Q. And isn't it a fact that the bulk of that property had been built in about the five-year period preceding 1902?

A. Something like that.

Q. Yes.

A. But I am not certain.

Q. Certainly.

A. My records show that some wells were drilled in 1895, 1900, 1901.

Q. Surely. Well, I am just talking about the bulk of the property. And the property acquired was recorded in the plant account of the Hope Company at average cost, was it not, Mr. Antonelli?

A. Was recorded at the purchase price.

Q. Was the purchase price spread among the different accounts?

A. Yes, sir.

Q. And was that spread determined by a determination of average cost of the property in each of the accounts, Mr. Antonelli?

A. Yes; they used the current market prices.

6322 Q. We will get to what they used, but it was recorded, was it not —

A. (Interposing.) It was recorded—

Q. (Interposing and continuing.) As stated in the voucher, at average cost?

A. Yes; average cost determined by Hope; yes.

Q. That is right?

A. Yes.

Q. Now, you say, do you, that that average cost is average cost for the year 1902?

A. That is the average cost for the previous two or three years. I am not certain whether it was two, or three, years. The average current market prices for 1902, 1901, 1900—the previous two or three years.

Q. It couldn't have been the previous three or four years, or anything like that?

A. I can get you the exact figures if you wish. I don't know if it was two years or three years, but it was the previous two or three years.

Q. You say you spot-checked those costs?

A. Certainly I did.

Q. Now, did you have some of your people make that check for you or did you yourself do it or review what was done?

A. I had some people make it for me.

6323 Q. You made no independent study of your own to determine whether average cost meant average cost over the period during which the bulk of the property had been constructed or something else?

A. I instructed to check exactly what the average costs shown on the voucher were, and how they were obtained, and that man did that work and he understood perfectly what I asked him to do.

Q. When you speak of the voucher in that last answer, or the vouchers, are you referring to the Hope Company vouchers or the predecessor company's vouchers?

A. Let me see. I was referring to—I think it is H-45; I will have to check it; or H-48.

Mr. MILDE. Was it the Hope Company voucher or the voucher of a predecessor company?

The WITNESS. It was a Hope Company voucher.

By Mr. SLAFF:

Q. Did you have any vouchers of the Flaggy Meadow Company, which you could consult?

A. I can't recall offhand; no. I had a receiving voucher. No, I don't know; I don't—

Q. (Interposing.) Well, when you testified earlier in the afternoon that you had a voucher for every single cost shown in your original cost, you weren't then referring to acquired properties?

6324 A. I have vouchers for certain companies like Mountain State and Clarksburg Light & Heat, to the predecessors.

Q. But not for all of them?

A. Not for all of them.

Q. To that extent, you do not have vouchers showing the cost of the properties going into the total of the original cost, have you?

A. I have some vouchers but not all of the vouchers. I don't know how much, but I had quite many vouchers of the predecessor companies.

Q. All right. Now, with respect to the Flaggy Meadow acquisition, you are telling us that average cost, at which the over-all cost was spread between the different plant accounts, did not represent average cost over the period during which the bulk of the company's property had been installed; is that correct?

A. That is correct.

Q. And that is based upon, as you have testified, the determination that some of your assistants made in this case?

A. Yes, sir.

Q. Now, there, again, in that case, you have recorded, have you not, \$6.00—you have recorded acreage at some \$6.04 per acre as representing the original cost of that acreage?

6325 A. I don't have the figure, but I think you are right. I am not certain, but it runs through my mind that it ran about \$6.00.

Q. And to that extent you are representing that the Hope Company did record, at the time of the acquisition of that property, the original cost of the gas acreage acquired; is that right?

A. Yes, sir; and I again would like to explain that that was done—that was an exceptional case and it was done under the instructions of the West Virginia Commission, that, in the case of purchased leases, that we should record the purchase price.

Q. By the way, Mr. Antonelli, when you speak of this instruction of the West Virginia Commission, in this qualification you are making, are you speaking of a recent instruction?

A. I don't know how recent the instructions are, but—let me see—well, I suppose I got the instructions a year ago.

Q. Well, that is, instructions which were given to you within the past year or so?

A. Yes.

Q. By the Commission, as to how that matter should be handled; is that right?

A. Well, they were given to me by the company and I understand that they got it from the Commission.

Q. Well, that, at least, is your understanding of what was represented to you by the Company?

A. Yes.

Q. You made no independent effort to get an instruction or interpretation from the West Virginia Commission in that respect?

A. No, sir. I was instructed that, in the case of the leases, I should use the purchase price, and I think they got the instructions from the West Virginia Commission. However, I am not quite certain.

Q. You testified, did you not, that there was no possibility of duplication of costs, as shown in your Exhibit 60 and 20, and amounts recorded on the Company books; is that correct?

A. What kind of a duplication do you refer to?

Q. Duplication of cost.

A. I know. In properties?

Q. Yes.

A. What?

Q. Yes; in the property account.

A. One item could appear in two accounts; is that what you mean?

Q. Yes, that is right; or in the same account.

A. Oh. I am certain there is no duplication.

Q. Well, suppose a property in the 1920 reclassification of accounts—suppose a property was missed, would that mean that the cost as recorded on the Company's books at that time would also have been missed?

A. I didn't pay any attention to the 1920 reclassification. I just ignored it.

Q. Mr. Antonelli, did you testify, when asked how property exists which does not show on the Company books, didn't you testify that it might be that, during the reclassification of accounts, certain properties were missed and, when asked what reclassifications you meant, you referred to the 1920 and 1932 reclassifications?

A. Yes; certainly.

Q. All right.

A. Well, if they were missed and then we picked them up in the field and found the costs on the books, we restored them. If we didn't find the cost on the books and records, by the way, then I included them under the column, "Direct material and labor not capitalized."

Q. Well those former reclassifications were just that, weren't they—reclassifications of cost on the books?

A. Well, let me tell you what they did in 1920.

Q. All right.

A. They had certain dollars set up on the books. They
6328 didn't change the dollars.

Q. That is right.

A. They went out in the field and made a new inventory and set up this inventory and reclassified these dollars they had as of 1920.

Q. That is right, so—

A. (Interposing.) Under one voucher.

Q. Pardon me. Go ahead.

A. M-699. That is an inventory voucher. It doesn't mean anything. What I did, I ignored that voucher. I went back and got the actual cost by first identifying the property—

Q. (Interposing.) Let's not get to what you did. We are still at 1920. We will get down to what you did. I am just asking—

* * *

6329 By Mr. SLAFF:

Q. Now, confining ourselves solely to the 1920 reclassification, the dollars on the Company books were spread over an inventory that was then taken; isn't that right, Mr. Antonelli?

A. Yes, sir.

Q. And so all the dollars that had been on the books before the reclassification still remained on the Company's books after the reclassification—that is correct, is it not?

A. All the dollars; yes.

Q. Surely. And when you say certain properties were missed, or might have been missed, what you meant was that, in making the inventory, certain properties might have been omitted from that inventory; isn't that correct?

A. Well, not intentionally.

Q. Of course we are not going into the question of intention at this time.

A. They were missed, that is all.

6330 Q. And omitted from the inventory?

A. All right, omitted from the recording it on the books.

Q. The dollars were recorded on the Company's books, were they not?

A. Yes.

Q. All the dollars—right?

A. That is right.

Q. All the property, however, the items of property, might not have been recorded on the Company books; is that correct?

A. That is correct.

Q. Now, when you went out in your present original cost determination and found a property that had been missed in 1920, you determined the original cost of that property, did you not?

A. Yes.

Q. Now, in those cases, where you could find that some cost of that property had been recorded to another item of property, you eliminated that; is that correct?

A. I don't get that last question.

Q. All right. With respect to property that you found in your present inventory, which had been missed in the earlier inventory, you determined—you made an estimate of the original cost of such property—right?

6331 A. No; I first made—I tried to find the voucher and in many cases I did find the voucher.

Q. Yes.

A. Not the 1920 voucher, but the actual voucher.

Q. That is right.

A. And I put it in.

Q. That is right, and you either determined the cost from voucher or made an estimate of the cost of such property; isn't that right?

A. I put it the other way: For instance, as I tried to say—I was stopped—I didn't pay any attention to the 1920 inventory voucher. I went out in the field.

Q. That is what we are afraid of, Mr. Antonelli.

A. And got the inventory and went back to the original vouchers and got the cost. I just kept that 1920 inventory voucher. It didn't mean anything. So I went back to the actual

cost. If I didn't find the voucher I estimated or put it under the column, "Material and labor," and "Direct material and labor not capitalized," so there couldn't be any duplication and there couldn't be an improper distribution of costs.

Q. Now, do you mean to tell us that you paid no attention whatever to—what is that voucher number? M-69? The adjustment?

6332 A. M-699.

Q. M-699; the 1920 reclassification voucher?

A. That is right.

Q. You paid no attention to that in your original cost determination?

A. No sir. Went right past it.

Q. All right. Now then, going back—Well, included in your total of inventory transferred and correction adjustment, column 6, pages 31 and 32 of Exhibit 20, included in the total of \$1,804,000, red figure in that total, isn't there a total of approximately \$158,000 which are adjustments of vouchers M-699 and A-155?

A. Where are you getting those figures from?

Q. I am just asking you a question. The figures as ~~they~~ come now, for your convenience, are from Mr. Pace's Exhibit 67-A.

A. I don't know anything about Pace's exhibit.

Q. Don't you know anything about Pace's exhibit?

A. I wouldn't want to explain Pace's exhibit now.

* * *

Q. I am asking, independently of Mr. Pace, whether
6333 you know whether or not there is contained in your Column 6 of Inventory and other adjustments, of your Schedule 1-A adjustments, with respect to voucher M-699.

A. Certainly there is.

Q. Then you did pay some attention to that voucher, Mr. Antonelli?

A. Well, in order to eliminate it, you do have to pay some attention. You make an adjustment to bring—to tie it up with the books.

Q. You told us just a minute ago, Mr. Antonelli—and the reason I inquired specifically here—you told us just a minute ago that you hadn't paid any attention at all to voucher M-699. I was trying to find out what the fact was.

A. I didn't pay any attention, as far as determining the original cost. I had to adjust it out and find the actual cost, and it is only natural. I can't understand what you are driving at.

Mr. MILDE. Well, you paid attention to it, to the extent of disregarding it?

The WITNESS. That is all.

Mr. SLAFF. That, I might observe, of course, is not a finesse with words—no.

Mr. MILDE. Well, it is what you finally brought out by your cross-examination, as I see it.

* * *

6334

By Mr. SLAFF:

Q. Do you consider it proper to increase the cost of the property purchased from an affiliate above the purchase cost; is that right?

A. Well, if I was determining the original cost and the purchase costs from the affiliate wasn't the original cost, naturally I would consider it improper that that is the cost.

Q. As I interpret your last answer, you consider it proper for an affiliate to make a profit on an acquisition; is that right?

A. Profit?

Q. Yes.

A. There is no profit involved here at all. How could there be profit? We are just getting to the original cost.

Q. Where do you propose to show the difference between purchase cost and original cost of those properties acquired from affiliates in the records which you are setting up on the Company's books?

A. That hasn't been decided yet.

6335 Q. Where do you propose to show it?

A. It doesn't make any difference. According to the code of accounts I will put it in 100.5. That is my personal idea.

Q. How do you propose to dispose of it after it is recorded in Account 100.5?

A. No one knows about that.

* * *

Q. What is that?

A. I don't know.

Q. You just don't know; is that right?

A. No. Nobody else does.

* * *

The WITNESS. I have no opinion.

6336 Q. Then you just don't know?

A. No.

Q. Of course you are not, Mr. Antonelli, disputing the fact that, with respect to these prior acquisitions, Hope recorded in its accounts the cost to Hope?

A. In some of the cases, like Clarksburg Light & Heat and Mountain State, they recorded the cost to the vendor, and then showed the difference in the depreciation reserve. In some properties they recorded the purchase price.

Q. The net effect of the Clarksburg and the other acquisition was to show the cost to Hope?

A. Yes.

* * *

6339 Redirect examination by Mr. MILDE:

Q. Mr. Antonelli, you were interrogated as to a 25 percent additional allowance over some Ford, Bacon and Davis unit costs that you used in making certain estimates on structural costs, do you recall that?

A. Yes, sir; I do.

Q. Well, what was the total amount of structural costs that you estimated in your \$70,000,000 original cost estimate for items where you used these adjusted unit cost figures?

A. The total amount involved, that total amount of the amount that the Federal Power Commission Examiner excluded from their Exhibit 57, was approximately \$100,000.

Q. And those were the only items in this \$70,000,000 where you used these unit costs that you were interrogated about?

A. No; those are the dollars that the Federal Power Commission Examiners did not allow us.

Q. They did not allow \$110,000 of estimates?

A. That is right.

Q. And those particular unit costs were not used in connection with any other estimates than these?

A. Well, they were used with an additional amount,
6340 about a hundred thousand dollars, which was allowed by the Federal Power Commission.

* * *

Q. Mr. Antonelli, referring to your Exhibit No. 60, let me ask you if the figures that you show for the various accounts are not an explanation or an itemization of the omitted property and costs of the figures appearing in column "H" of Schedule No. 2, of the Federal Power Commission Examiners Exhibit No. 75?

A. Yes, they are.

Q. In other words, taking the first item of \$150.45 as shown in column "H" there, as amount disallowed by the Examiners, that is the \$150.45 which appears on page 2 of your Exhibit 60?

A. That is correct.

Q. And so on, if we ran through all of these accounts, they would either be exactly or substantially the figures shown in column "H," would they not?

A. The difference would be the property used to transport coke oven gas which are not included in our Exhibit No. 60.

* * *

TRIAL EXAMINER. Ruling was reserved on Exhibits 59, 6341 69, 98, and 99. Was there any objection to those exhibits?

Mr. SLAFF. Well, I have what I might say is perhaps not an objection but something which I think the Examiner should take into consideration in ruling on the exhibit. If this Exhibit 60 is admitted into evidence, I think it should be admitted by the Examiner with the notation at the time of admission that the various headings and statements contained therein are very definitely misleading as they appear in the exhibit.

TRIAL EXAMINER. And as admitted by the witness.

Mr. SLAFF. That is correct. I think the nature of those—of the misleading character of those representations in the exhibit—has, I think, been brought out in the cross-examination of this witness. If the Examiner is to admit this exhibit in evidence. I think it should be done with a statement by the Examiner at the time of such admission so that in the future this exhibit won't stand just by itself in the record, and I do make that observation with respect to the exhibit.

Mr. MILDE. If the Examiner were to state with respect to each exhibit that he thinks this title or that title were misleading, we would never have a record here.

Mr. SLAFF. The reason I say that is because I really think that it is of sufficient consequence in this case so that, 6342 if an objection were pressed on that ground, it might be proper on the part of the Examiner to sustain such an objection.

Nevertheless, what would happen then, I presume, would be that the company would have to re-do the exhibit if it wanted to get it into evidence, and that is a considerable job—what the job might be worth is something else again—but it is a considerable physical job and I don't want to press the objection on that ground for that very reason; but I do think it a reasonable re-

quest to make that some notation be made at the time of admission into evidence of this document, if it is admitted, with respect to the representations made on the face of the exhibit itself in certain parts, and their misleading character in that respect.

TRIAL EXAMINER. Well, that probably would necessitate some little study of the exhibit and the record in order to determine just exactly what misrepresentations do appear in the exhibit, unless counsel has them in mind specifically right now.

MR. SLAFF. Frankly, what I want to guard against is the fact that this exhibit may sometime be considered by itself without specific reference to that portion of the record where we took up, with Mr. Antonelli, what I, at least, conceive to be very definitely misleading portions of the exhibit, on its face.

MR. MILDE. Well, may I call the attention of the Examiner to this, that what Mr. Slaff is afraid of is the very reason—unwarrantedly—is the very reason that I asked Mr. Antonelli on redirect if it wasn't a fact that this Exhibit 60 is an explanation or a list of the omitted costs or omitted property costs of the figures appearing in column "H" of the Commission's Exhibit 65.

Now, you look at that exhibit and there can't possibly be any doubt, for example, that on the land accounts, the —

MR. SLAFF. Let me explain what I have in mind.

MR. MILDE. Let me finish—that on the land accounts the Commission allowed a certain amount of money, as shown by their exhibit, and they have disallowed \$150.45, which are the abstracting and recording costs listed in here. These two exhibits, one by the Commission's staff, and one by Mr. Antonelli, tie in together.

One is complementary or supplementary to the other, and there can't be any doubt that what is listed in Exhibit 60 is either the entire omitted cost of a particular structure, or certain portions of the cost.

MR. SLAFF. Well, now, just take a look. I have before me that exhibit, and it is open to page 4, which is the first page of Account No. 33-2, and it certainly represents that there was excluded in the Federal Power Commission original cost exhibit, obtaining, recording, consideration, and abstracting, costs for every single one of the leases shown there on the exhibit. That is certainly what that page represents and Mr. Antonelli certainly, under cross examination, stated, that that is not what it was intended to represent by any manner of means.

Mr. MILDE. And I so stated at the time.

Mr. SLAFF. Sure, that is right. Certainly, to anyone who reads that portion of the record, that will be apparent, or one will know about it.

TRIAL EXAMINER. I don't think counsel for the company could complain of a ruling in accordance with the witness' own testimony, with respect to the exhibit.

Mr. MILDE. Oh, no. No, I just didn't want the Examiner to think that we would put anything in here that was intentionally misleading, and I made a statement at the time that we put these costs in here as a general heading, and dittoed them, and if we were doing it again we wouldn't do it that way.

Mr. SLAFF. Sure.

Mr. MILDE. Because, looking at it now, somebody might get a wrong impression.

Mr. SLAFF. I am not going into the motivation now, and the motivation isn't what moves me in making the statement I do, and the suggestion I do. It is simply so that the exhibit, on its face, will be clear, and if somebody goes to the place where
6345 it is received into evidence, if it is, and reads that portion, he will know what the fact is in that respect.

TRIAL EXAMINER. Exhibits 59, 98, and 99 are admitted into evidence.

(The documents referred to were received in evidence as Exhibits 59, 98, and 99.)

TRIAL EXAMINER. Ruling will be reserved on Exhibit 60.

* * *

6686 TESTIMONY OF F. P. C. WITNESS GOUGH ON HOPE WIT-
NESS' MISINTERPRETATION OF GOUGH'S REBUTTAL
OF "TRENDED ORIGINAL COST"

Transcript Pages 6686-6734

* * *

Mr. SPRINGER. Mr. Examiner, we are presented with an unusual situation, in that the company didn't choose to cross-examine Mr. Gough relative to Exhibit 74 which was his report on Mr. Antonelli's original cost trended, nor to call Mr. Antonelli to the stand to rebut the criticisms or trending of original cost, which Mr. Gough's exhibit is, but the company had Mr. Rhodes testify in that connection.

In his testimony, Mr. Rhodes has said a number of things, in connection both with Mr. Antonelli's Exhibit No. 20 and Mr. Gough's Exhibit No. 74, which are untrue, and I believe that the progress of the case would be expedited if I were to have Mr. Gough take the stand to comment upon several of the answers which Mr. Rhodes gave during the course of his testimony on Wednesday, July 16, 1941, and Mr. Gough will confine himself to Mr. Rhodes' statements, and nothing new is presented here.

6687 TRIAL EXAMINER. Mr. Gough should confine himself to a direct answer to Mr. Rhodes' statements.

Mr. SPRINGER. Yes.

TRIAL EXAMINER. And not bring up any new matter.

Mr. SPRINGER. That is the purpose of presenting Mr. Gough at this time in surrebuttal of Mr. Rhodes rebuttal.

Mr. MILDE. Of course, the proper way to develop any errors in Mr. Rhodes' statement is by cross-examination of Mr. Rhodes.

TRIAL EXAMINER. That is quite true.

Mr. SPRINGER. Of course, I made a statement at the time that I found Mr. Rhodes to be an evasive witness and I am unable to get him to acknowledge misrepresentations that he has made.

Now, my only resort is to bring the man who made the study, Exhibit 74, and let him point out where Mr. Rhodes misquoted

him. We are certainly entitled to that in the course of procedural due process and a fair trial.

Mr. MILDE. I think we are also entitled not to have the counsel for the Commission make an inaccurate statement as to the testimony of one of our witnesses. Just because he doesn't answer what Mr. Springer thinks he ought to answer doesn't make him an evasive witness.

Mr. SPRINGER. That is just my opinion. It doesn't necessarily have to influence the Examiner or you or anybody
6688 else.

TRIAL EXAMINER. Well, of course, in so far as Mr. Rhodes may have misquoted the witness, that might very easily have been developed on cross-examination, but when it comes to an erroneous interpretation of this witness' statement or testimony, I think it is very doubtful that that could be properly developed on cross-examination.

Mr. SPRINGER. That is my point, Mr. Examiner.

TRIAL EXAMINER. Well, go ahead.

VICTOR G. GOUGH, called as a witness, having been previously sworn, resumed the stand, was further examined and testified as follows:

Direct Examination By Mr. SPRINGER:

Q. Mr. Gough, were you present and did you hear the testimony of Mr. Rhodes on Wednesday, relative to Exhibit 74 which is your report on original cost trended, which was originally Mr. Antonelli's Exhibit 20?

A. I was and I did.

Q. Are you prepared to answer certain questions in connection with the testimony that Mr. Rhodes gave?

A. I am.

Q. I refer you to page 6229 of the transcript in which
6689 Mr. Rhodes stated that you developed a trending method to trend the company's original cost. Did you do any such thing?

A. I did not.

Q. What did you do—

Mr. MILDE [interposing]. Just a moment. If we are going to have any reference to Mr. Rhodes' testimony, will you state it accurately in the record by reading it?

Mr. SPRINGER. Do you have page 6229 before you, Mr. Milde? Do you have it before you?

Mr. MILDE. Yes; I have a copy of it.

Mr. SPRINGER. Don't you see that Mr. Rhodes stated that he thought Mr. Gough developed a trending method to trend the company's original cost. That is obvious, isn't it?

Mr. MILDE. This is the direct statement. It begins at page 6228 of the record.

Question to Mr. Rhodes: "Mr. Rhodes, are you familiar with the methods used by Mr. Antonelli in determining his trended original costs in Exhibit 20?"

"Answer. I am.

"Question. Have you also studied the trending methods suggested by Mr. Gough of the Commission's Staff in Exhibit 74?"

"Answer. Yes.

"Question. Will you compare these two methods, 6690 generally?"

"Answer. Mr. Antonelli's methods express original cost in 1938 dollars and Mr. Gough's methods, if carried to completion would reflect, in addition, 1938 construction conditions and methods."

Mr. SPRINGER. Well, what else can that mean except that Mr. Rhodes stated Mr. Gough developed a trending method to trend the company's original cost.

TRIAL EXAMINER. I think it would be well to develop this witness's testimony on the basis of what was said. If it is a matter of interpretation, everybody makes his own interpretation and I don't know where we are going to end up.

Mr. SPRINGER. All right.

By Mr. SPRINGER:

Q. On the basis of the statement read from the transcript by Mr. Milde, what is your answer to Mr. Rhodes comment?

A. What I did was to examine Mr. Antonelli's trending and by tests found that it had not taken into account the improvement in labor productivity per man-hour and, in one major instance at least, that the trending factors for material costs were based upon data not representative of the charges to which they were applied.

Mr. MILDE. I move that that answer be stricken as not responsive to the question or the line of direct examination. He is 6691 supposed to state some inaccuracy in what Mr. Rhodes said about his methods.

Now he is going on to repeat his direct testimony as appearing in Exhibit 74 as I understand it.

The WITNESS. Mr. Examiner, at page 6229, the phrase "Mr. Gough's methods" appears 4 times, both from the mouth of Mr. Rhodes and from the mouth of counsel, and I developed no method for trending original cost.

Mr. MILDE. All right, that is your statement. That is sufficient.

By Mr. SPRINGER:

Q. Now, Mr. Gough, I call your attention to the statement of Mr. Rhodes on page 6230, and I quote: "First he assumes that all the improvements in effective labor productivity were due to methods of construction." Did you assume any such thing?

A. I did not.

Q. What did you do?

A. Using Mr. Antonelli's revised original cost and his labor rates I developed the fact that there has been an improvement in labor productivity per man-hour and that this impeached Mr. Antonelli's trending.

Q. Was it necessary for you to determine the reason for the general improvement in labor productivity?

A. No. A demonstration of the fact that there had been such an improvement was sufficient for my purpose.

6692 I might add, however, that aside from the peculiarities that relate to any single construction job, there are two general factors which tend to improve labor productivity per man-hour. They are (1) more efficient methods of construction—

Mr. MILDE (interposing). I object. Let me interrupt you. I object to the qualifications of this witness to answer that question from here on. He is purely an accountant. He is not an engineer and he is going on in answer to Mr. Springer's question.

Mr. SPRINGER. Just a minute. He made an analysis of the company's experience and, if anything, found that there was an improvement in productivity per man-hour of the company's own man power, when hours were shorter under modern conditions, and the technology of the machine age was at the disposal of the man power of the Hope Company in modern times.

TRIAL EXAMINER. Go ahead, finish your answer.

The WITNESS (continuing). And (2) shorter hours of labor. The displacement of the ox, which was referred to as a means of hauling pipe earlier in this case, by the automobile obviously speeds up construction. The shortening of the work week from 72 hours to 40 hours also makes the hour of work a more productive one, for long hours of labor go hand-in-hand with low productivity.

6693 By Mr. SPRINGER:

Q. Didn't you just make a statistical study of the Hope Company's experience on labor productivity?

A. I did.

Q. That doesn't require any engineering knowledge, does it?

A. Well the thing that Mr. Milde objected to, that more efficient methods of construction improved productivity, is the objection to a platitude, you might say.

Q. That is common knowledge—

A. (Interposing.) Because it is obvious that if you are more efficient, that is what efficiency is.

Q. At the same page—

Mr. MILDE (interposing). Which page?

Mr. SPRINGER. 6230.

(Continuing.) Mr. Rhodes says that Mr. Antonelli developed his pipe price trends from actual purchases of pipe by the company over the years?

Did you find this to be true?

The WITNESS. I found that in addition to using actual prices he also used estimates where no purchases of a particular size were made. For example, from 1915 to 1938, I understand—and I believe it is in this record—that there were no purchases of 2-inch pipe and that an estimate was used.

6694 By Mr. SPRINGER.

Q. Now, at page 6231 of the transcript Mr. Rhodes states that you "based your study on book cost, calling it original cost." What did you do?

A. I based my study chiefly on Mr. Antonelli's revised original cost. I did this for the reason that it was Mr. Antonelli's figures I was testing and the best test of the accuracy of his method was to use his own figures for that purpose.

Q. Now on page 6232 of the transcript Mr. Rhodes compares your figure of \$2.80 per foot to trend in 1938 with his reproduction cost of \$2.84. Was Exhibit 74 made for the purpose of exposing fallacies which might lie in Mr. Rhodes' reproduction cost new?

A. No, it was not. My task in that exhibit was to demonstrate the unreasonableness of Mr. Antonelli's trended results. That was the fly in the ointment that we were fishing for, and when one hauls it out and examines it, he finds that Mr. Antonelli trended well construction to \$34,384,320 or to \$4.30 per foot. This result

is obtained by using Mr. Rhodes' own figures of approximately 8,000,000 feet of aggregate depth of all wells. It is to be noticed that Mr. Antonelli's figure is a little over 50 per cent higher than

Mr. Rhodes' figure of \$2.84

6695 Q. In Mr. Rhodes testimony on the same page 6232 of the transcript, he compares your figure with his, apparently as a means of confirming his figure. Are your figures properly used for that purpose?

A. No, they are not.

Q. Why not?

A. My tests of Mr. Antonelli's trending did not extend to the reasonableness of his 1938 prices. In other words, I accepted them. Had I been critical of them, my first complaint would have been that they, assertedly based on company prices for 1938, represent a very small part of total plant. Page 98 of Exhibit 20 shows 1938 additions to plant to be \$860,725 of total plant of \$70,553,439, a ratio of about 1.2 per cent. Obviously, therefore, these prices which I accepted for the purpose of my exhibit are not properly usable as reproduction cost new prices, for it is apparent that prices representative of a little more than one per cent of the plant are no indication of what prices would be were the entire plant to be reproduced in 1938.

Q. Now, on page 6232 of the transcript Mr. Rhodes states also that you selected lines for the purpose of table 13, and that it is a partial list of lines. Is that a correct statement?

A. No. Page 35 of Exhibit 74 states what it represents. The analysis contains the cost of every job in the company's
6696 mains lines inventory ledger with the exception of those for which data could not be readily interpreted.

The jobs analyzed represent more than 3,000,000 feet of main and \$3,000,000 of cost. This is a sizeable portion of all the company's mains construction costs which on December 31, 1938, according to Exhibit 20, were \$5,266,108. Of course, the costs by lines jump up and down probably because of construction conditions, such as weather, terrain, and size of job. For this reason the over-all picture is better to be seen from table 14 which summarizes the averages for each size and period.

Q. And when you speak of table 14 do you mean Exhibit 74?

A. Table 14 of Exhibit 74.

Q. Mr. Rhodes testified on pages 6234 to 6235 of the transcript about conditions encountered in building pipe lines. What

have you to say about his comment in reference to your exhibit on that?

A. As I stated in the text of my report, and as Mr. Rhodes observes, it is hazardous to make comparisons of the cost of one pipe line with another. The construction of a pipe line is often surrounded by circumstances peculiar to it and perhaps almost every pipe line may be called a typical in some respect or other.

For this reason it is desirable to analyze large amounts of
6697 construction costs representing many feet of pipe and that has been done as table 14 indicates.

Q. Of your Exhibit 74?

A. Of Exhibit 74.

We believe the percentages of increase of production per man-hour shown on that table definitely indicate a tendency towards improved labor effectiveness.

Q. Now, Mr. Rhodes combined labor study of mains construction jobs to get an over-all figure. Why did you not combine your labor study of mains construction jobs to get an over-all figure in the manner that he did?

A. It would have complicated the method of my comparison and would have introduced a controversial point. My comparison has the advantage of showing like size compared to like size without raising any question as to the validity of a formula, and furthermore when the results by sizes are all examined it will be seen that they tend to confirm one another.

Q. At page 6238 of the transcript, Mr. Rhodes explains calculations he has made on an "inch-feet per man-hour" basis. Did you have the opportunity to check them?

A. No, I did not. I expected to go on yesterday and the papers were made available to me the day before at an hour and on conditions that didn't permit me time to examine them.

Q. Now, at page 6241 of the transcript, Mr. Rhodes states that he used the same wage rates that you used to find
6698 year by year the total man-hours required. Did you develop these wage rates to which he refers or did Mr. Antonelli develop them?

A. They are Mr. Antonelli's.

Q. On page 6242 of the transcript, Mr. Rhodes states "so that trending original cost, as Mr. Antonelli had done, in the light of an unchanging labor performance, really arrives effectively at the contract price in the field." Did Mr. Antonelli pay any

attention whatever to labor performance in the development of his trend factors?

A. No; he did not.

Q. At page 6242 of the transcript and 6243, Mr. Rhodes states that table 11 of your exhibit 74 is not a complete list. Is his statement true or untrue?

A. It is untrue. The amounts of \$580,155.05 and \$719,878.09 shown on pages 31 and 32 respectively of Exhibit 74 are exactly what they purport to be, namely an analysis of Mr. Antonelli's entire original cost revised for the years indicated, exclusive of overheads. Table 10 of Exhibit 74 shows these amounts with overheads added and they agree to the penny with Mr. Antonelli's original cost as shown on page 82 of his Exhibit 20. The difference between Exhibit 11 and 13—

Mr. MILDE (interposing). Do you mean table 11?

The WITNESS. Table 11.

6699 A. (Continuing.) and table 13, which Mr. Rhodes talked about is readily explainable.

The WITNESS. He raised a question as to these two tables not agreeing.

Mr. MILDE. Well, I think we ought to be fair to Mr. Rhodes and have his complete statement in the record. What it says is that these lists are not complete because of the omission of several sizes of pipe. One table omits some sizes and the other table includes them.

The WITNESS. Well, I can clear that up very readily.

Mr. MILDE. You don't deny that that is a fact, do you?

The WITNESS. Yes; I do deny it.

Mr. MILDE. That one of your tables omits some sizes and the other one includes them?

The WITNESS. Well, I do not deny that they are in one table and they are not in another, but when you use the colorful "omits" in it, I can't agree with you, because when you consider what I am doing, I don't omit anything. I have taken the company's records as they are and there is a very good explanation for the difference. The difference between table 11 and 13 which Mr. Rhodes talked about is not due to an error as Mr. Rhodes seems to imply. Exhibit 11 is an analysis of the mains
6700 construction existing in plant on December 31, 1938—

By Mr. SPRINGER:

Q. You mean table 11?

A. Table 11. (Continuing.) Whereas table 13 is a tabulation of the construction that the company has undertaken, whether retired or not. Obviously, if the 325,000 feet which Mr. Rhodes refers to at page 6243 is not in the plant as of December 31, 1938, it has been abandoned or otherwise disposed of, or Mr. Antonelli's records from which I took the data is in error.

Q. Does this explanation also apply to Mr. Rhodes observation concerning 162,000 feet of 12-inch pipe?

A. It does.

Q. On the transcript page 6243?

A. Yes, sir; it does.

Q. So that the lack of coordination, which he complains about, arises from the fact that you have presented a full picture, namely, a comparison of construction costs in the plant existing at December 31, 1938, and also a comparison of costs whether still existing in plant or not?

A. It does, and it is improperly called a "lack of coordination."

Q. Then it does not indicate that you have made elective choices?

A. Positively not.

6701 Q. At page 6244 of the transcript, Mr. Rhodes refers to your comparisons as "an inadequate sample." Did you sample the company's mains construction cost or did you present the complete analysis of those costs?

A. I presented as complete an analysis as possible for the three important sizes chosen for my study. It represents more than 50 percent of all the mains construction that the company has ever made.

Q. The analysis presented in your table 11 of Exhibit 74, represents how many feet of 10-, 12-, and 20-inch construction?

A. 3,294,595 feet.

* * *

By Mr. SPRINGER:

Q. Will you turn now to the page 78 of your Exhibit 74, which is a copy of a schedule taken from the company's financial statement of December 1938, and which shows the number of feet of main lines pipe by dimensions as of December 31, 1938, and will you add the number of feet of 10, 12, and 20-inch pipe shown on that schedule, and tell me the total number of feet of those three sizes?

A. 3,459,646 feet.

Q. Do you know the total amount of mains construction abandoned and retired?

A. I am told by Mr. Dunn that it is less than \$1,000,000.

Q. So that your tabulation in table 13 of Exhibit 74 6702 can not properly be called an inadequate sample?

A. I think not. I might add that that \$1,000,000 I referred to is all of the mains that have ever been abandoned by the company.

Q. At page 6246 of the transcript, Mr. Rhodes states that you applied a general over-all trend to individual purchases of pipe. Is this your method or Mr. Antonelli's method?

A. It is Mr. Antonelli's method. He applied a general over-all trend to pipe and for the purpose of disproving his answer I obviously had to follow in his footsteps. It is true that such an application to an individual purchase might be misleading, but when every purchase to the number of 61, with the exception of only one, which was a distress sale of pipe, gives the same answer, namely, that Antonelli's prices exceed Rhodes' prices, only one conclusion can be drawn.

Q. Mr. Rhodes also stated that your individual purchases are not a good criterion and that you should have taken a cross-section of all the purchases. What did you do?

A. Information for all important purchases of pipe greater than eight inches in diameter which could be obtained in the aggregate amount of \$7,808,500, is shown in table 16 of Exhibit 74.

Mr. MILDE. What page?

6703 The WITNESS. 47 and 48.

By Mr. SPRINGER:

Q. Of Exhibit 74?

A. Yes. Pipe greater than eight-inch pipe was taken because it was the trending of the larger sizes specifically that was being tested. When it is recalled that the original cost of all pipe that the company has ever had in its Mains Equipment Account, of all sizes, is, at the outside, using Mr. Antonelli's figures, not much greater than \$11,000,000, the term "individual purchase," as applied to \$7,808,500 worth of pipe, is a misstatement.

Q. Again at page 6246 of the transcript, Mr. Rhodes states that "Mr. Antonelli investigated all the purchases made by Hope over the years and developed from the actual prices paid the cost over the years." Did Mr. Antonelli use the costs of

pipe greater than eight inches in diameter in developing his trend?

A. He did not.

Q. And what part of the Mains Equipment account, as it existed at December 31, 1938, consisted of mains greater than eight inches in diameter?

A. About 95 per cent of it.

Q. So that Mr. Antonelli's pipe cost trend was developed from costs of pipe of sizes which in money amounted to only about 5 per cent of the account as of December 31, 1938?

6704 A. That is correct.

Q. At page 6247 of the transcript, Mr. Rhodes testified that "the reproduction cost new price of pipe is approximately 20 percent lower than Mr. Antonelli's trended prices." True or false?

A. False.

* * *

A. Pages 47 and 48 of Exhibit 74 show percentages of the excess of Mr. Antonelli's pipe cost as trended over Mr. Rhodes' pipe cost far in excess of 20 percent, and these excesses were developed by comparison with the pipe prices in Rhodes' appraisal before deducting 10 percent for quantity purchases.

If you add to these percentages the 10 percent quantity reductions which are not taken into account in Exhibit 74, there are only five purchases out of the 61 that are less than 20 percent. Most of them run very much higher than 20 percent, as a glance at column "L" of table 16 shows. The highest is 73 percent in excess of Rhodes and others are similarly high.

Q. The prices which appear in column "J" of table 16, on pages 47 and 48 of your Exhibit 74—is that right?

A. Yes, sir.

6705 Q. (Continuing.) Were taken from what source?

A. They are the unit costs per foot for material taken from pages 260 and 261 of table 16, part "D"—

Q. (Interposing.) You mean Exhibit 16?

A. Exhibit 16, part "D" which is Mr. Rhodes' reproduction cost new of the company's property as of December 31, 1938.

Q. And after Mr. Rhodes had applied these prices to the quantities of pipe for each size in his appraisal he made an over-all deduction of 10 percent for wholesale purchases, did he not?

A. He did, and that is shown on page 259 on Exhibit 16, part "D."

Q. But the prices shown in column "J" of table 16 at pages 47 and 48 of Exhibit 74 are ten percent higher than they would be if Mr. Rhodes' ten percent reductions were taken into account?

A. They are ten percent lower than they would be if Mr. Rhodes' ten percent had been taken into account.

Mr. SPRINGER. Will you read the question.

(Whereupon, the pending question, as above recorded, was read by the reporter.)

A. I heard your question, and they should be ten percent—they are, as they stand, ten percent lower than they would be.
6706 Oh, excuse me. The prices. The prices are higher. That is correct. I misspoke myself.

Q. Well, doesn't it follow that, if Mr. Rhodes took an over-all ten percent deduction on the prices——

A. (Interposing.) Afterwards.

Q. (Continuing.) Afterwards, that the prices that were used for your study of trended original cost are ten percent higher?

A. That is correct. I misspoke myself.

Q. At the foot of page 6247 of the transcript, Mr. Rhodes, in commenting upon Exhibit 74, states that "the other explanation is that, in reproduction cost new, I took a lump sum over-all ten percent discount below the manufacturers' quotations, less usual discounts, so that we would expect pipe trends based on actual cost to be higher than reproduction costs on a similar basis——"

Mr. MILDE. Well, why don't you finish the sentence?

Mr. SPRINGER. "Namely, without overheads, and such proves to be the case."

By Mr. SPRINGER:

Q. Is this a true explanation of the percentages of difference which appear in column "L" of table 16 of Exhibit 74?

A. No. It is not, for the reasons that I have just given.

Q. At page 6248 of the transcript Mr. Rhodes said, "Now
6707 some of the items listed in Mr. Gough's tables show a greater than 20 percent and some show practically no difference at all, but they all wash out to approximately the 20 percent difference which I have just described, by comparison with the over-all figures." What do you have to say of this explanation of the difference?

A. It is a false explanation of the definition of what the comparison shown in table 16 of Exhibit 74 indicates. This can be seen by a casual examination of column "L" of table 16 of Exhibit

74 especially if the additional ten per cent on quantity purchases is kept in mind.

Q. Does that conclude your comments upon the statements made by Mr. Rhodes or the interpretations made by Mr. Rhodes of your Exhibit 74?

A. Yes, sir; it does.

Mr. SPRINGER. That is all.

* * *

Cross-examination by Mr. MILDE:

Q. Mr. Gough, referring to your last statement, you don't quarrel with Mr. Rhodes' figures, do you, that if you take the columns "K" and "L," I believe on table 16, that if you add up all the figures and compare the lump sum differences, that the
6708 prices, as you show them for Mr. Antonelli and Mr. Rhodes are approximately 20 per cent difference. You don't quarrel with his mathematics on that, do you?

A. No; I am not quarrelling with the mathematics of that.

Q. Did you make that calculation?

A. No; I did not.

Q. I see. Your comment isn't based on the mathematics of it, but on some other things that you expressed in your direct testimony?

A. Yes. It is based also on another comparison that I made of the Rhodes prices for 2, 3, 4, 6, and 8 inch pipe which was used as the basis of his trending, as compared with Antonelli's prices for 1938, and that difference was 14 per cent. If you added to that 14 per cent the 10 per cent over-all quantity discount, you get 24 per cent which would be something higher than Mr. Rhodes.

Q. Well, you recognize that Mr. Rhodes' reproduction cost new prices as he used them are substantially below the prices actually paid by the company in 1938?

A. Well, I haven't made any examination of Mr. Rhodes' reproduction cost appraisal. I wouldn't care to comment on it one way or the other.

Q. Well, you made a sufficient examination to develop your table 16 that you have been talking about, haven't you?

6709 A. Maybe I misunderstood your statement. I thought it led to comment by me on Mr. Rhodes' reproduction cost appraisal. May I have the question?

* * *

(Whereupon, the pending question, as above recorded, was read by the reporter.)

A. I couldn't answer that, because I haven't compared them. His prices were below the prices used by Antonelli for these low sizes of pipe. I stated that and, of course, Antonelli's prices included, at least for the 2-inch, an estimate.

By Mr. MILDE:

Q. For 1938?

A. I think so; yes. I don't think the company purchased any 2-inch pipe in '38 or for a number of years prior to that.

Q. Well, do you know what prices Mr. Antonelli used for his 1938 prices in making his trending?

A. Yes; he used 2, 3, 4, 6, and 8-inch pipe.

Q. I mean, what prices they were?

A. For what period and whose prices?

Q. Yes.

A. They were the prices that the company paid.

Q. They were the prices that the company actually paid 6710 in 1938—that is, the average for 1938 purchases—were they not?

A. Yes. If they paid such—if they made such purchases. Now —

Q. (Interposing.) Well, I think you have answered my question.

A. I am looking at a table that gives these 2-inch pipe prices and it is a very bad reproduction, that I referred to when I introduced the exhibit, and now I am having trouble with it because I am looking at page 75 —

Mr. SPRINGER. (interposing). Of Exhibit 74?

The WITNESS (continuing). Of Exhibit 74 and I can't distinguish whether his indication is that that is an estimated price or not.

By Mr. MILDE:

Q. Well, there is no note opposite it indicating that it was either obtained from the Peoples Company, or was a trended cost, is there?

A. Well, there is a narrow line running down there. It doesn't seem to include '38 but I wouldn't be sure of it.

Q. Now, with reference to your comments about selection of lines, Mr. Gough, which of your tables on line construction is the most comprehensive?

A. Tables 13 and 14, which are really to be taken
6711 together, is more—includes more pipe line construction
than table 11.

Q. Tables 13 and 14?

A. Yes, sir.

Q. Now, turning to table 14, will you tell me why you omitted
16-inch pipe from this comparison or determination, or what-
ever you call it?

A. Yes. Let me say this first, Mr. Milde, that every test that
I made in this study I have included—that is, I haven't made
tests which I excluded. When I made the study I was assigned
to the study singly. I had no help. I was fortunate in getting
assistance of a couple of the men at Clarksburg in their off time
from their regular jobs, and I was faced with the difficulty of
trying to get an over-all view of this picture without a tre-
mendous amount of detailed work, so that I chose three sizes,
and I chose sizes that I thought would be representative.

Q. Well, Mr. Gough, do you know that there is a very sub-
stantial amount of 16-inch pipe in the company's inventory?

A. Yes; there is.

Q. And you didn't in this comparison, use any 8-inch pipe,
did you?

A. No; I used only 3 sizes out of a number of sizes.

Q. Well, is there more difference between the installation
6712 of 10 and 12-inch pipe than there is between 8 and 12 or 16
and 20?

A. No; I can hasten to say that if I had had time to make the
entire study, it would have been more satisfactory than picking
out three sizes. I was faced, as I say, with the problem of doing
this work with the resources at my disposal and at the same time
trying to get an answer that would be fair, and I feel that I ac-
complished that.

Q. Well, why did you start with 1905?

A. That was the first year that we had any record of those
sizes. We took the books from the very beginning, 1898, and we
listed every job that we could, and that was the first year that we
got that—that one of those sizes appeared.

Q. And I suppose the reason that you eliminated H-1, which
was the first line built by the Hope Company in 1899, was because
that was 10-inch rather than one of these sizes that you selected?

A. It was 10-inch, you say?

Q. Ten inch; yes, sir. 10¾ inch, O. D.

A. I don't think we would have eliminated it for that reason, Mr. Milde. I just can't, at this late time—unfortunately, Mr. Whitney, who helped me with the details is no longer here. I just can't tell you why we didn't accept that, whether the details weren't available in sufficiently good shape or what the reason was.

Q. Well, perhaps that was because it was installed in 6713 1899 rather than in 1905?

A. Oh, no. We started from the very beginning.

Q. I see. Well, then, can you tell me now why you omitted lines H-2 and H-8, both 12-inch pipe and totalling some 150,000 feet, H-2 being installed in 1905 and H-8 in 1904?

A. The reasons must have been that the detailed information on those jobs was not in such form that we could use it.

Q. Well, you don't really know about that, do you?

A. Well, I know that we took everything. You are asking me now—that job was done a long while ago and the man who worked on that particular detail is not here, but I am sure that is the reason.

Q. Well, you don't deny Mr. Rhodes' statement that all sizes and all lines have not been studied in your exhibit or analyzed in your exhibit?

A. Oh, no; there is no question about that.

Q. Before we go on I wish you would explain your statement that you didn't have time to examine Mr. Rhodes' working papers. Is that what you meant?

A. Yes. Well, it is simply this: that when Mr. Rhodes left the stand the other day, I had those papers for about an hour I had to go upstairs and didn't have the opportunity to reach them.

Q. Well you know we had them here for you the next day?

6714 A. Well, I will tell you the whole story and that will finish it.

Q. Now——

A. (Interposing.) Well, let me tell you the whole story.

Q. All I am interested in knowing is: you don't say we didn't give you an adequate opportunity to check over those figures?

A. That is exactly what I do say.

Q. All right, then, you better tell your whole story.

A. At 4:30 one of his assistants appeared at my office and asked me for the papers so that I didn't have them that evening.

Q. How long had you had them that day?

A. About one hour.

Q. And how many papers were there?

A. There weren't many, but I had other things to do when I left the hearing room.

Q. So you had them an hour and you didn't look at them?

A. That is right.

Q. All right, proceed.

A. The next day I sent one of my assistants down here in the morning and they were not here—they were over at the 6715 hotel—and he accompanied Mr. Rhodes over to the hotel and Mr. Rhodes declined to give him the papers, and they appeared with the papers at my office, I think, about a quarter to two, and they wouldn't leave the papers there. They wanted to give us copies of them. Well I just—by the time copies were made, or they copied them, I wouldn't have had time to prepare myself to go on the stand—as I thought, the next morning, which was yesterday—and so I simply didn't choose to delve into the matter at all, rather than look at them hastily.

Q. And the fact is that we offered to make copies for you, isn't it?

A. At a quarter to two.

Q. When?

A. On Thursday.

Q. On Thursday?

A. Yes.

Q. And today is what?

A. Today is Saturday.

Q. Now, Mr. Gough, you made some comments about productivity. Are you an engineer?

A. No, sir.

Q. Have you ever constructed a pipe line?

A. No, sir.

Q. Have you ever done any construction work?

A. No, sir.

6716 Q. And is it your view that there is more or less lost motion, so far as man-hours of labor are concerned, under present working conditions, when you knock off after 8 hours, rather than the old days when you worked ten and twelve hours steadily.

* * *

A. I think that the man who works long hours in employment does less because, for several reasons—does less per man-hour—he is more susceptible to illness and the time that he is ill is unproductive time. He has to be excused more often because his free time is frequently not sufficient for his personal needs, and, obviously, he is subject to greater fatigue, and that is cumulative because the long hours give him less time to—

By Mr. MILDE:

Q. (Interposing.) For recreation?

A. No. To refresh himself. Because if he goes out and has recreation, he is liable to do less than if he didn't.

Q. And is that all?

A. Well, that is one of the features of the long day.

Q. I see. And that is what you based your opinion on in this case?

6717 A. Well, I wouldn't say that I based my—I think my opinion in the matter is immaterial. The facts speak for themselves. I was interested in looking up the problem of productivity and I think it is one of the amazing things of our age, that in the last 15 or 20 years there has been the tremendous increase in productivity in practically every industry.

Q. Now, Mr. Gough, what study have you made of the laborers down in the hills of West Virginia? Do you think they are more or less healthy and get time off if they work 10 or 12 hours a day rather than 8 hours?

* * *

Mr. SPRINGER. Mr. Gough said that he studied the company experience on labor performance and Mr. Milde has not kept within the scope of his examination, but he listed an opinion of Mr. Gough's, which he happens to have based upon
6718 his studies of the phenomenon of greater labor productivity under shorter hours and modern working conditions than in the earlier part of this century.

Mr. MILDE. Of course, if Mr. Rhodes developed the results that Mr. Gough achieved, it would not show that you get greater productivity in West Virginia.

I want to develop the basis for Mr. Gough's opinion as to why there should be greater productivity. Not in some garment factory in New York or in some tooth paste manufacturer in New Jersey, but the men working down in West Virginia.

That is what we are concerned with here. I want to know and I am entitled to ask him whether he has made the slightest

study of these conditions as he has described them, as applied to the West Virginians who actually work in these pipe lines.

Mr. SPRINGER. The point is that he took the company's actual experience. Can't we confine our examination to that?

* * *

6719 Mr. MILDE. Is there an unanswered question on the record?

(Whereupon the pending question, as above recorded, was read by the reporter.)

TRIAL EXAMINER. As I understand, this witness testimony and his exhibit are confined to man-hour productivity, as shown by the books of the company.

The WITNESS. [Nodding.]

TRIAL EXAMINER. But based on his opinion as to the productivity of labor in that immediate territory or in any other parts of the United States?

Mr. MILDE. Well, as I understood it, on Mr. Springer's direct examination, he ventured some opinions that of course it was a mere platitude that labor is now more productive than it was in the earlier days, and that is what I am examining him about.

TRIAL EXAMINER. Are the conclusions he arrives at in his exhibits based, to any extent, on that opinion?

The WITNESS. No; they are not based on opinion: they are based on the facts as recorded in the Company's books and in Mr. Antonelli's studies.

By Mr. MILDE:

Q. As you interpret them?

A. Well, it is an interpretation like 12 divided by 3 is 4. That is the kind of interpretation it is.

6720 Mr. REEDER. Mr. Examiner, I submit that the question which counsel asked this witness on cross-examination, having gone outside the scope of the direct testimony, calling for an opinion, which was primarily an engineering opinion, counsel is bound by the answer of the witness and not entitled to cross-examine him further about it. He made him, for this purpose, his own witness, and he can't cross-examine him, and he has no right to be surprised by the answer that he got.

TRIAL EXAMINER. Objection sustained.

By Mr. MILDE:

Q. Well, Mr. Gough, you didn't test the results of your figures, as you show them in your Exhibit 74, as to man-hour produc-

tivity, by any engineering study or analysis or industrial study of labor conditions in West Virginia, as they are applicable to the building of pipe lines from 1898 on?

A. No; I did not. I used only the facts as they relate to the Hope Company.

Q. And just what did you mean by man-hour productivity? Isn't it a fact that that is a computed figure?

A. It is the result of a computation; yes. You take the units of work that are done, the cost of doing that work, the number of hours spent in doing the work, and out of those facts you get the productivity.

6721 Q. Well, you didn't actually ascertain the hours that were spent in doing the work, did you?

A. I ascertained the hours that were spent doing the work, pursuant to Mr. Antonelli's formula, which is this: If you spend a hundred dollars for labor and you pay men on an average 25 cents an hour, it is self-evident that you have gotten 400 hours of labor for that hundred dollars.

Q. Well, will you point to any place in Mr. Antonelli's exhibit where he used a formula of that sort?

A. Well, his whole trending is shot through with that. That is the way the labor is trended. He takes the money and he says that the average rate at which that money was spent was 25 cents or 50 cents an hour, whatever it is.

Q. Well, he never determined the hours of labor for various lines in the—over the course of the Company's history?

A. He didn't do it for various lines. He did it over all by years for each account.

Q. Do you mean to say that anywhere in his exhibit or in his working papers he determined the hours of labor expended in constructing the Company's property?

A. No. If I gave that impression, I am mistaken. Mr. Antonelli wasn't interested in hours, but it follows that if he says the labor rate for so much money was such a rate, there
6722 can be no other answer than that that represents so many hours of labor.

Q. Mr. Gough, will you turn to Page 31 of your exhibit and take your first item of 10-inch line in 1911, installed in 1911, where the original cost, exclusive of overheads, is shown as \$8,106? Then, isn't this what you did: You took the average hourly wage rate of 21.9 cents, as shown in your Column E, and divided that into the \$8,000 to get man-hours expended?

A. That is exactly what I did.

Q. And that doesn't indicate how many hours of labor were actually required to build that line, does it?

A. No. It is not an actual figure. It is a derived figure.

Q. And you don't know whether it took actually 16,000 hours or 40,000 hours?

A. No.

Q. That is just the computation to get some sort of a factor?

A. Yes; it is a computation like Mr. Antonelli's original cost trended is a computation, and it doesn't violate any of the assumptions that Mr. Antonelli has made.

Q. And nowhere in your exhibit do you actually show how many hours of actual labor it took to install any of the Company's lines, either early in its history or late in its history, do you?

6723 A. No; except as derived by this formula.

Q. And if you wanted some completely accurate data as to how much work a West Virginian pipe-liner could do in 1938, as compared with what his father did in 1910, you would have to make some time studies, wouldn't you?

A. You mean—well, that is on the assumption that the Company book costs are not correct, or that the rates that Mr. Antonelli used are not correct?

Q. Not at all.

A. Well, no, I think that the best indication, assuming that Mr. Antonelli's costs are correct, and that his labor rates are correct, if you divide his cost by his labor rate, you will get the number of hours expended. Otherwise he has got a mistake somewhere.

Q. Yes; but you don't get the hours expended, Mr. Gough; you just admitted that. You don't know whether those are the actual hours of labor expended or not?

A. No; I didn't say they were the actual hours expended. I say, you get the hours as I have shown them by that method. Now, if Mr. Antonelli's original cost is wrong, or if his labor rate is wrong, then the answer is wrong. If the money spent is right, and if the wage rate is right, the hours have to follow, like night and day, as being correct.

Q. Well, Mr. Gough, isn't it perfectly apparent that
6724 you have got a lot of other costs besides labor costs?

A. In the labor accounts?

Q. Sure. You have got the use of machinery and equipment and all that sort of stuff?

A. That is true. It is a relatively minor thing, and Mr. Antonelli so treated it, because he used a labor rate to trend the whole account, and, if you are going to pick trouble with me on that score, you would have to pick trouble with him on that score.

Q. I am not trying to pick trouble with you at all, Mr. Gough. I just want your statement, and I think you have made it, that when you use man-hours expended in your exhibit that that is not actual man-hours-expended, but a computed figure.

A. That is correct.

Q. Now, you have made a comment, I think, in reply to Mr. Springer, that what you wanted to show was not methods of trending, but that Mr. Antonelli's trends were unreasonable, is that the substance of what you stated, Mr. Gough?

A. Well, I didn't want to show that they were, but I was obliged to, when I made the study.

Q. But you yourself, you say, developed no methods of trending—is that your testimony?

A. No. I have no thoroughgoing method of trending 6725 there.

Q. Let me ask you: when you state, on Page 7 of your exhibit, for example, in the second paragraph, last sentence, referring to two studies for various years which you described in the first part of that paragraph, and when you go on to state, "In both studies, the ratio that the costs of earlier years bear to the costs of 1938 were developed and compared with the trend factors used in Exhibit No. 20," what do you mean that that ratio is?

A. You mean what makes them comparable with the trend factors?

Q. No. What is this thing that you developed? You say it isn't a trend factor.

A. Well, it is a ratio that the costs of earlier years bear to the cost of 1938.

Q. Well, if you wanted to take the cost of earlier years and find out how you would translate them into present prices, wouldn't you apply these ratios that you use?

A. That might be—I think it would be a fairer method than Mr. Antonelli used, by all means. The only thing, however, is

that I wouldn't want to be placed in the position of saying, if I were making a trend, that I would exactly do that, because I haven't considered the question of what the right answer of how to get a trend exactly would be, you see.

6726 Q. But aren't these ratios that you develop all through your exhibit really trend factors developed on a different basis, which you used to say, well, you don't think Mr. Antonelli's trend factors reach the right result?

A: Well, they are not trend factors, because I have not used them for trending, and if I were going to develop a trend I would have to consider a number of other things. For example, I would have to consider whether I would use the prices for 1938 that Mr. Antonelli used.

Q. Well, if these ratios that you have developed aren't trend factors based on another method of approach or analysis, or giving consideration to factors other than what you think Mr. Antonelli did, how could you say that his trend factors don't reach the right results because they don't reach the result that you would use if you used these ratios?

A. Well, I think it is possible, Mr. Milde, to point out the flagrant errors or mistaken methods that one man uses, without completely developing what you would do if you were going to do the job. That is all I am trying to say.

Q. Well, you would say, Mr. Gough, wouldn't you, that these ratios or trend factors that you developed would be items that you think ought to be taken into consideration in any proper trending?

6727 Mr. REEDER. I object.

Mr. SPRINGER. I object.

Mr. REEDER. The witness testified that he hasn't developed any trend factor, and counsel is trying to put words into the record that don't belong there.

Mr. SPRINGER. This is outside the scope of Mr. Gough's examination.

He said that he took Mr. Antonelli's study and made a test of it. He starts out with an assumption, for purposes of making a test with Mr. Antonelli's figures. He doesn't know whether they are right or wrong, but all he does is follow Mr. Antonelli in his reasoning, and tests it to find that it is in error.

TRIAL EXAMINER. Objection sustained.

Mr. MILDE. Note an exception.

By Mr. MILDE:

Q. Well, Mr. Gough, these ratios that you developed were not trend factors?

* * *

6728 A. They haven't been used to develop a trended cost.

By Mr. MILDE:

Q. I understand that. You haven't applied them to the whole property. But what are they?

A. Well, they are ratios of the cost of one period to the cost of 1938, as Mr. Antonelli developed costs for 1938.

Q. And what—

A. (Interposing.) I think he might better have used them as trend factors than what he did. Whether I would have so used them is another question.

Q. Well, your criticism of this and his unreasonableness, as you expressed it to Mr. Springer, is based on the fact that his results don't coincide with the results that you get by applying these ratios, isn't that so?

A. That is correct.

Mr. SPRINGER. Read that. I didn't testify anything. Read it, please.

6729 Mr. MILDE. You are doing your best to testify.

(Whereupon the last question, as above recorded, was read by the reporter.)

Mr. MILDE. And read the answer.

(Whereupon the last answer, as above recorded, was read by the reporter.)

By Mr. MILDE:

Q. Now, tell me why, Mr. Gough, you prefer the results of the application of your ratios to Mr. Antonelli's ratios.

A. They take into account the factor of productivity.

Q. And what does that mean?

A. Well, it means that you relate to the costs of today the methods of today.

Q. Well, let me ask you this: What result do you think he should have reached?

A. Oh, well, I don't know. You are asking me to extemporize a trended result.

Q. No. I don't mean in figures. I mean in principle. What result should he have reached?

Mr. SPRINGER. I object to it.

A. I am not prepared to say what his trend should have been, Mr. Milde.

By Mr. MILDE:

Q. No, but what should he have reflected in his final figures?

6730 You say he should have reflected present productivity and present prices, is that it?

A. Well, Mr. Milde, a trend usually is conceived as a short-cut to a reproduction cost new appraisal, and ideally, I think should equal—that is to say, if the original cost is correct, and if your factor is correct, you come to the same result that you would by pricing all of the property out at its present reproduction prices, but I wouldn't want you to put me in the place of saying what answer you should get by a trending or a reproduction cost appraisal, because that hypothesis involves, frequently, a tremendous number of incongruities. For example, you have 3,300 wells; if you had to drill them in '38 I don't know whether you could get the equipment or the trained personnel to drill them. It presents you with a great many problems.

Q. Well, I was just interested, Mr. Gough, in your theory that he reached an unreasonable result, and, as I get your testimony, you think he reached an unreasonable result because he arrived at costs which were higher than reproduction cost would be.

A. Yes; I just pointed out that one unreasonableness in his result. Now, if he had eliminated that, it was a major one. There might have been others—many others.

Q. And you also think, as I understand it, that, if he had
6731 done a job just as carefully as could be done, and following all suggestions that you might give him to assist him on that, that he ought to arrive at a reproduction cost of the property?

A. Well, Mr. Rhodes stated that ideally the two should come to the same answer, if you take into account the productivity factor, but I am not an expert on reproduction cost appraisals. I have never made one and I hesitate to tell you how it should be done.

* * *

By Mr. MILDE:

Q. Of course you recognized, Mr. Gough, in your exhibit, did you not, that what Mr. Antonelli purported to do was not to arrive at present reproduction cost estimate by a trending development, but to determine what this property would have cost, as it was actually built if the prices now prevailing for labor and material had actually prevailed since the beginning?

* * *

6732 A. Yes; that is what he purported to do.

By Mr. MILDE:

Q. Now, Mr. Gough, when you state, on Page 1 of your
6733 exhibit that the purpose of your study, and examining Mr. Antonelli's trends, quoting them, was to learn exactly by what means it was effected, and to ascertain whether the results obtained were in any sense a fair value of the Company's property. What you meant there was whether or not Mr. Antonelli's results reached correctly present prices and present labor productivity, and, in short, present cost of the properties, as they would be built today?

A. Well, either that or any other—there are two major tests of fair value—that is, original cost and reproduction cost—to be considered, and whether this met one of those tests.

Q. Well, your quarrel with him was that he arrived at results that were, in effect, higher than what reproduction costs would be as of today?

Mr. SPRINGER. I object to that. Mr. Gough has said he just tested Mr. Antonelli's methods and found defects in them.

TRIAL EXAMINER. And he criticized them?

Mr. SPRINGER. Yes, but he didn't care what Mr. Antonelli's answer was. It was the method of trending that he was testing.

Mr. MILDE. You can't test a method and say it doesn't reach the right result unless you know what result should have been reached.

* * *

6734 TRIAL EXAMINER. I assume, when you say "quarrel," you mean "criticism."

Mr. MILDE. Criticism; yes.

TRIAL EXAMINER. Objection is overruled.

A. In effect, that is what he did, and I think it is the result of his methods which I think are at fault.

By Mr. MILDE:

Q. And that is why you criticized his methods?

Mr. REEDER. I object to that. The witness answered the previous question. Now counsel is trying to get him to say what reproduction cost ought to be today. He said over and over again that he isn't testifying as to that and, of course, it would be improper if he did.

TRIAL EXAMINER. Objection sustained.

Mr. MILDE. Note an exception. That is all.

362 **TESTIMONY OF HOPE WITNESS CHISLER ON DEPLETION
AND DEPRECIATION**

Transcript Pages 362-373

Cross-examination By Mr. SPRINGER:

Q. Will you refer to page 21 of Exhibit No. 11, please? In the account Depreciation and Depletion Reserve under the year 1934, in the amount of \$5,901,317.53, will you please explain the basis for that transaction?

A. In the year 1934, we adjusted our Depreciation and Depletion rates downward, and we applied that adjustment back to January 1, 1927, and we transferred from the Depreciation Reserve to Surplus this \$5,901,317.53, with the approval of our West Virginia Public Service Commission.

* * *

Q. You say that you adjusted your depreciation rates downward in 1934?

A. That is right.

Q. What was the basis for that adjustment? Do you
363 have studies which reveal that you were charging too much annual depreciation expense?

A. Mr. Springer, you will notice that we have very high depreciations accrued, some \$40,000,000, and we knew that that amount was greater than was needed for various provisions, and in determining this amount to adjust, our surplus was down rather low in the end of 1933, and we transferred the amount that we thought would be necessary to carry on our business in the amounts that might be needed. In adjusting those rates, we took into consideration, of course—we made a study of our retirement losses and other provisions for which depreciation might be needed.

Q. Do you have that study available?

A. We have where the adjustment was made.

Q. You spoke of a depreciation study which prompted you to change your rate of depreciation on certain property, I believe?