predicated on the correct determination of the facts pertaining to costs must be amazed at the principle enunciated by Mr. Reed in the following paragraph (page 95):

As the location for a central generating station is always selected for its economic value to the property as a whole, it is safe to assume the position that *cost of current* delivered to the substations of the various communities, that is, generating cost plus transmission line losses, *should be the same.* It is not fair to penalize a community because the location of the generating station is a distance from the community.

In these few words Mr. Reed lays down as a rule for guidance in cost determination the principle that because a certain selling price for the goods is equitable, costs should be so allocated as to make the price appear to be based on costs.

I am not quarreling with Mr. Reed relative to his assumption of what is equitable in prices, but I do not wish to fool myself as to what constitutes true cost in order to create a fictitious cost base on which to build price.

To my mind the refinements of allocation so ably described in the paper are a waste of effort, if based on the fallacy that the facts entering into costs must to any degree whatsoever be twisted to fit a preconceived notion as to selling price.

It is obvious that there is a greater cost involved in serving a customer at a distance than one near to the generating station, and a cost system which tells a different story is on the face of it inherently fallacious, nor does the fact that the price to each customer should be made the same have any effect whatever on the cold facts of cost.

Malcolm F. Orton.[8] I fear that if President Cooke desired to have a discussion of this paper from the standpoint of cost accounting, as an aid to management rather than as a means of rate fixing he should have seen to it that a different set of men were chosen to discuss it. Speaking for myself, I naturally prepared to discuss the relationship of costs to rates in public utilities because I think I have something to say on that point, while I am free to admit that I do not feel competent to discuss the methods of budgetary cost control as an aid to efficient management.

I do not intend to disparage or minimize the place of cost accounting and cost study in rate-making, for I appreciate that no proper results can be reached without the fullest possible knowledge of the facts involved. But to my mind there are one or two dangers in connection with the application of cost data to rate making.

In rate cases the companies usually pursue one of two courses. Some of them declare that there is no possible means of dividing costs between the different classes of service, and that all the regulatory bodies can assume to do is to see that the over-all earnings of the companies are not too large, leaving to the management entire discretion in fixing the rates for the different classes of service. It is needless to remark that these are the cases where the management itself has no real basis for fixing these rates, but relies upon a blind following of relationships established in the distant past or upon an inner feeling that certain classes of business are profitable or unprofitable.

On the other hand there are companies which appear before the regulatory authorities with a set-up purporting to show the exact cost of each class of service. This gives the impression that everything has been measured mathematically and put into the proper classification by invariable accounting methods, and that there is nothing more to be said so far as the question of cost is concerned. All the commission has to do is to fix rates in accordance therewith and perhaps give a little consideration to the fact that some classes of service really cannot afford to pay the full cost.

This testimony may be based upon a regular cost system, though usually it is based upon studies made especially for the purpose of the rate case. In either case, a searching cross-examination usually reveals the fact that the various costs are not so absolute and exact as they appear on the surface. It is found that joint costs have been apportioned upon more or less arbitrary bases, and that certain considerations of a commercial or public policy nature have been injected into the cost study below the surface. The statement is sometimes made that while these are the costs, of course consideration must be given to other factors in fixing rates. But once you start departing from the costs as found, there is nothing whatever to show how far rates may safely vary therefrom. The result is that the regulating authorities usually either follow the costs blindly or throw them overboard entirely. Both results are unfortunate.

[8]Public Utility Consultant with Milo R. Maltbie, New York.

It seems to me that such cost systems or cost studies as these are based upon a wrong conception of the place of cost accounting and cost data in the scheme of price fixing. In any case involving joint costs or fixed costs, the cost system cannot produce a price. It cannot even produce a single amount as the cost of a unit of product and say "that is *the cost* of the unit."

O. M. Rau.[9] Mr. Reed's paper, from an accounting standpoint, indicates that cost accounting can be applied to an electric utility, which contention is not generally recognized by the industry.

With such a system of cost accounting available, there should be no difficulty in allocating costs so that the *cost to serve* each particular class of consumers can be accurately ascertained. Rate schedules as a rule cover classes of service having definite load characteristics. Therefore, the allocation of costs in accordance with the characteristics of the load which is directly responsible for fluctuations in costs can be charged to each rate schedule responsible for the costs involved.

With a complete cost accounting system (unfortunately Mr. Reed's paper only covers operating expenses) the present method of establishing rate schedules by a complicated analysis to justify them, should be discarded and the rate schedule based on an accurate *cost to serve* basis.

Assuming all consumers to have similar load characteristics, this system of cost accounting would develop a situation where the *cost to serve* would be identical for the major items in the classification for each consumer, and the only reason for more than one rate schedule would be the secondary or minor charges covering service rendered by the company which was not governed by the load characteristic and principally covered by utilization and public policy expenses. These expenses would not effect a material difference in the rate schedules and would not cause a spread of more than a fraction of a cent between all the top rates.

In Mr. Reed's paper the important item of fixed charges approximating 50 per cent of the total cost to serve is not covered in detail. The failure to allocate these expenses by a definite cost accounting system is largely responsible for the existing wide spread between rate schedules applied to large and small consumers.

[9]Consulting Electrical Engineer, Philadelphia, Pa.

It is therefore necessary, before an accurate *cost to serve* allocation can be made for each rate schedule, to extend the able work presented by Mr. Reed to include a cost accounting system which will dispose in an accurate manner this part of the problem of electric utility cost accounting.

News of the Sections

Eastern Massachusetts

The first meeting of the reorganized Eastern Massachusetts Section of the Taylor Society, arranged by Percy S. Brown, past president of the Society, was held at the Hotel Winchester, Boston, Mass., on April 8. The meeting took the form of a general discussion of the question "Is there a vital problem in connection with the retention or hiring of people of middle age and over in gainful occupations?" Able leaders in the fields of education, industry, engineering, labor and others were invited to participate. So much interest was evidenced that it was decided, with the aid of a fact finding committee, to continue the discussion through a series of two or three monthly meetings on which we hope to be able to publish a report.

Those interested in further information concerning meetings of this section should address the secretary, Mr. Raymond L. Tweedy, Manufacturers Research Association, 80 Federal Street, Boston.

Central New York

The last meeting of the Central New York Section was held on March 29 at the Hotel Syracuse. Roy S. Durstine, partner and general manager of Bruce Barton's Advertising Agency, spoke on "Lessons for Management from Advertising."

New York Metropolitan

At the March meeting of the New York Metropolitan Section Professor Joseph H. Willits spoke on his year's observations of industrial relations in Germany. The April 18 meeting on "Group Incentives—Some Variations in the Use of Group Bonus and Gang Piece Work" was addressed by C. C. Balderston of the Industrial Research Department of the Wharton School.

University of Pennsylvania

On April 18 at Logan Hall Fred W. Shibley, President of the Bankers Trust Company, addressed