



Original
FILE COPY

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION
DOCKET NO. 950495 - WS
APPLICATION FOR A GENERAL RATE INCREASE

VOLUME I
BOOK 10 OF 22

MINIMUM FILING REQUIREMENTS
PREFILED DIRECT TESTIMONY

Containing
JOHN HILTON

DOCUMENT NUMBER DATE

06021 JUN 28 88

FPSC-RECORDS/REPORTING

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23

DIRECT TESTIMONY OF JOHN HILTON
BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
ON BEHALF OF
SOUTHERN STATES UTILITIES, INC.
DOCKET NO. 950495-WS

- 1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**
- 2 A. My name is John Hilton. My business address is 1000 Color Place,
3 Apopka, Florida 32703.
- 4 **Q. BY WHOM ARE YOU EMPLOYED AND WHAT IS YOUR**
5 **POSITION?**
- 6 A. I am employed by Southern States Utilities, Inc. ("Southern States") as
7 Purchasing Administrator.
- 8 **Q. WHAT IS YOUR EDUCATIONAL BACKGROUND AND WORK**
9 **EXPERIENCE?**
- 10 A. I received a Bachelor of Science degree in Business Administration with
11 a major in Accounting from West Virginia State College in 1973. Prior
12 to Southern States, I worked for FMC Corporation Chemical Division as
13 a Cost Accountant for twelve years. I am a Certified Purchasing Manager
14 (CPM).
- 15 **Q. PLEASE DESCRIBE YOUR PRESENT DUTIES AS PURCHASING**
16 **ADMINISTRATOR.**
- 17 A. In my present position, I supervise and coordinate corporate purchasing
18 functions, fleet management and data base, fleet fueling system and shared
19 lease program as well as enforce purchasing policies and procedures. I am
20 also responsible for bidding major construction projects as well as bid
21 openings.
- 22 **Q. WHAT ARE YOUR PROFESSIONAL AFFILIATIONS?**

1 A. I am a member of the National Association of Purchasing Management
2 and American Water Works Association.

3 Q. **WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

4 A. I will describe Southern States's statewide purchasing practices and
5 procedures and identify certain cost savings which have resulted from them
6 as well as certain unavoidable price increases which have resulted from
7 market developments. I also would like to confirm my belief that
8 Southern States is one utility which operates one system in a manner
9 which best serves our customers at the lowest possible cost.

10 Q. **PLEASE DESCRIBE HOW MATERIALS AND SUPPLIES ARE**
11 **PURCHASED BY SOUTHERN STATES.**

12 A. To accomplish Southern States's goal of obtaining the lowest prices
13 available, the purchase of all commodities, whether it is materials,
14 supplies or services, is accomplished through a centralized Purchasing
15 Department located in Apopka. The Purchasing Department is responsible
16 for maintaining an open and competitive environment for all commodities
17 purchased by Southern States. To fulfill this responsibility, the
18 Purchasing Department consistently requests quotes from suppliers for
19 items costing as little as \$250. These lower end commodities which are
20 bid include stock paper and computer supplies (i.e., ribbons diskettes and
21 toner cartridges). For higher end commodities or for bulk quantities such
22 as computer equipment, water meters, chemicals and vehicles, Southern

1 States conducts an annual bid inviting not less than three suppliers. With
2 regard to vehicles, we invite bids from sixteen to seventeen dealers
3 located across the state to obtain the best prices. Southern States has
4 experienced many advantages from a centralized Purchasing Department
5 serving all Southern States' facilities in the State of Florida. These
6 advantages include the following:

7 1) it minimizes duplication of effort and haphazard purchasing
8 practices;

9 2) volume discounts are made possible by consolidating all
10 requisitions for the same and similar materials or services;

11 3) Southern States is able to speak with a single voice to
12 suppliers, thus gaining a competitive advantage due to its
13 consolidated buying;

14 4) the use of purchasing specialists produces more effective
15 results than those obtained using less skilled individuals;

16 5) suppliers are able to offer better prices and better service
17 because their processing, inventory and delivery expenses are
18 reduced;

19 6) department managers do not have to spend time purchasing
20 and can devote full time and effort to their basic responsibilities;

21 7) fewer orders are processed for the same quantity of goods
22 purchased, thus reducing purchasing, receiving, inspection, accounts

- 1 payable and record keeping expenses;
- 2 8) responsibility for the performance of the purchasing
3 function is fixed with a single department head, thereby facilitating
4 better management control; and
- 5 9) centralized data processing of requisitions, purchase orders,
6 invoices and receiving reports speeds up the availability of needed
7 goods and services to plant sites, ensuring continued customer
8 satisfaction.

9 Although the Purchasing Department is responsible for acquiring all
10 materials and services, final approval (depending upon the dollar amount
11 requested) lies with the supervisor or manager in the requesting
12 department. The Purchasing Department's main function is to acquire the
13 best quality product at the best price and value to the Company. The
14 department continually seeks additional, exceptional suppliers to add to its
15 growing list of qualified vendors and monitors the market for new product
16 announcements.

17 Because of the size of Southern States and the similarities of its
18 facilities, a standardized method of purchasing goods and services has been
19 made possible, which results in cost efficiencies. This commonality
20 between plants also has put Southern States in the position of being able
21 to buy on a bulk scale which has clear economic advantages. The fact that
22 Southern States can purchase in larger quantities for all facilities, along

1 with the competitive environment for Southern States' business that has
2 been created among potential suppliers, afford significant savings to the
3 Company and ultimately to our customers.

4 **Q. COULD YOU BRIEFLY DESCRIBE SOUTHERN STATES'**
5 **PURCHASING PROCEDURES?**

6 **A.** All of Southern States' purchases begin with a requisition from the using
7 department. The requisition is hand written and signed by the requisitioner
8 who then forwards it to his supervisor for approval. Based on the dollar
9 amount requested and the supervisor's approval limits, the supervisor signs
10 the requisition and either forwards it to the Purchasing Department or to
11 the next level of management if the amount is over his/her limits. Once
12 the requisition has been properly approved and amount coded, it is
13 forwarded to the Purchasing Department. In Purchasing, the requisition is
14 sourced by commodity and supplier. Requests for proposals are sent out
15 and delivery schedules are ascertained. After the vendor selection has
16 been made, a Purchase Order number is issued to the supplier, usually by
17 telephone. When the materials or services are delivered or completed, a
18 Receiving Report is issued by the using department. One copy is sent to
19 Purchasing and one copy is sent to Accounts Payable. Once Purchasing
20 has received the Receiving Report, it is matched with the Requisition and
21 Purchase Order and placed in the closed Purchase Order vendor file.
22 Accounts Payable then matches their copies of the Requisition, Purchase

1 Order and Receiving Report with the invoice, to be set up for payment.

2 Southern States' most cost effective method of procuring goods and
3 services is through the bulk purchasing process. At Southern States, the
4 Purchasing Department bulk purchases materials and services whenever
5 market conditions are favorable. Some examples of bulk purchases of
6 materials and services are water meters, vehicles, chemicals, printing, lab
7 services and copy machines. All bulk purchases are bid in a competitive
8 environment with pre-qualified suppliers asked to participate. Since all of
9 Southern States' facilities throughout the state have similar requirements,
10 the Company is in a favorable position of being able to purchase in
11 volume and receive volume discounts. This method of purchasing is
12 extremely cost effective.

13 When a commodity is bulk purchased, the Purchasing Department
14 negotiates the material price to include delivery to our various locations.
15 Pre-set delivery for F.O.B. destination (Southern States' plants) is routine.
16 This is an advantage to Southern States because the supplier retains
17 ownership of and responsibility for the material during transit. If there is
18 damage, or the material is not acceptable, then the supplier has the burden
19 of filing a claim with the carrier.

20 **Q. CAN YOU QUANTIFY ANY SPECIFIC SAVINGS FROM**
21 **SOUTHERN STATES'S PURCHASING PRACTICES?**

22 **A.** Yes. In 1994, we saved approximately \$370,000 in chemical

1 costs, \$100,000 in computer equipment and software costs and
2 \$330,000 in the cost of meters and meter boxes for a total of
3 \$800,000 for these commodities. We have projected savings in
4 1995 of approximately \$926,000 for these same categories.

5 **Q. ARE THERE ANY COMMODITIES PURCHASED BY YOUR**
6 **DEPARTMENT WHICH HAVE RISEN DRAMATICALLY IN**
7 **COST SINCE 1992?**

8 A. Yes. Even with Southern States's bulk purchasing power and our
9 ability to negotiate the lowest rates possible, market conditions for
10 certain chemicals have lead to dramatic increases in the price of
11 chlorine and caustic soda. Between 1992 and 1994, the price of
12 chlorine rose 345%, and the price of caustic soda rose
13 approximately 80% between 1993 and 1994. In gross numbers,
14 Southern States's total annual cost for chlorine rose from \$94,000
15 in 1992 to \$262,000 in 1994. For caustic soda, our annual cost
16 rose from \$58,000 in 1993 to \$104,000 in 1994.

17 **Q. ARE TELEPHONE, COMPUTER AND TRANSPORTATION**
18 **SERVICES SHARED AMONG SOUTHERN STATES' FACILITIES?**

19 A. Yes. For approximately the last three years, AT&T has been the exclusive
20 provider of long distance telephone service for all Southern States' plants
21 and offices statewide. With this arrangement, Southern States takes
22 advantage of programs that result in significant discounts. Discounts are

1 enhanced by committing to AT&T for specific terms under agreements
2 which allow graduated percentages of discounts when billings remain at
3 or above certain levels. Southern States can only take advantage of such
4 arrangements because all long distance costs statewide are considered in
5 reaching those commitment levels.

6 Southern States also has a statewide toll free 1-800 number for
7 customer service. The 1-800 number appears on every Southern States'
8 customer bill and on other information distributed to customers. Calls
9 from customers on the 1-800 line are answered by trained customer service
10 representatives in Apopka.

11 Southern States maintains a centralized computing center in Apopka
12 that provides customer billing, software development, hardware selection
13 and other computer related services for all Southern States' plants
14 throughout the state. The Information Services department in Apopka
15 performs the following functions for all Company plants and departments:

- 16 • Computer hardware, software evaluation and standardization.
- 17 • Computer hardware and software maintenance.
- 18 • Custom software development.
- 19 • Computer system installation.
- 20 • Help desk services and day to day support.
- 21 • Computer network design, installation and support.
- 22 • Customer billing.

1 To illustrate, when Southern States recently moved its Jacksonville
2 customer service office to another building in Jacksonville, Information
3 Services' personnel from Apopka travelled to Jacksonville to move and
4 install the computer equipment in the new office.

5 There are numerous examples of shared computer services, one of
6 which is the 1994 implementation of Southern States' electronic meter
7 reading system. A corporate team developed a detailed needs analysis,
8 negotiated purchase of equipment for all sites, installed the necessary
9 software and equipment, provided training and customized the meter
10 reading devices for Southern States. Southern States also has a
11 sophisticated customer service and billing system which links all field
12 customer service offices and the Apopka office. Southern States'
13 customers also benefit from the Information Services department's
14 administering/coordinating bulk rate pre-sorted bill mailing, low per bill
15 printing costs due to large volume, volume discounts on personal computer
16 equipment and software, and computer maintenance contracts based on
17 volume.

18 Centralized services enable plants to have technology available to
19 them that they could not normally afford. Southern States' Environmental
20 Compliance and Tracking System ("ECT"), developed corporately for all
21 plants, allows preparation of monthly operating reports via computer. The
22 system speeds up the environmental reporting process, checks for errors

1 and alerts operators to potential operating problems. ECT would have
2 been too costly for any one plant to develop, but was affordable and cost-
3 effective on a company wide basis.

4 For transportation purposes, Southern States' participates in what
5 is known as the Wright Express system, a nationwide fleet re-fueling
6 program that assures access to fuel sources even in remote locations since,
7 under the program, Southern States is not bound by credit card restraints
8 from one major fuel distributor. With Wright Express, many sources of
9 fuel are available to Southern States anywhere in the state, and the Wright
10 Express card is honored almost everywhere. Moreover, Wright Express
11 provides monthly reports which show the history of re-fueling of the entire
12 Southern States' vehicle fleet. All invoices and payments under the
13 Wright Express program are processed in Apopka.

14 Fleet vehicle purchases are made once each year in a bid process
15 that allows for volume buying discounts from the manufacturer. In 1994,
16 Southern States' bulk purchase of 49 trucks and cars resulted in savings
17 from the manufacturer -- over and above savings realized through the
18 dealers in the form of rebates and incentives -- of an additional 10%, or
19 almost \$50,000. Total savings achieved over retail prices was
20 approximately \$198,000. These volume discounts could not be realized if
21 Southern States did not coordinate replacement needs from a central point
22 and bulk purchase in a one bid process.

1 With the amount of Southern States' hard assets, number of
2 employees, and favorable loss experience statewide, Southern States
3 receives very favorable quotes on vehicle insurance premiums of all types.
4 With a fleet of almost 230 vehicles, Southern States' yearly auto insurance
5 premium of just under \$150,000 is considered extraordinary by competitive
6 insurance carriers, and is offered because of Southern States' improving
7 fleet (from an age and condition standpoint), good loss experience, and
8 Southern States' fleet management program. This comparably low level
9 of insurance premium would be impossible to achieve if each plant were
10 responsible for obtaining its own vehicle insurance. The fleet management
11 program controls and coordinates use, pooling, mechanical standards, and
12 safety requirements to assure that all vehicles are used to their best
13 advantage.

14 All transportation policies regarding the use of vehicles and their
15 maintenance, employee travel policies and cost reimbursement policies are
16 developed, administered and enforced through the Apopka office. Such
17 coordination would not be possible if each plant and service location were
18 free to buy and operate vehicles without central control.

19 **Q. DO YOU BELIEVE THAT ANY INDIVIDUAL PLANT**
20 **CURRENTLY OWNED AND OPERATED BY SOUTHERN STATES**
21 **COULD ACHIEVE THE SAME OR SIMILAR COST**
22 **EFFICIENCIES AS THOSE YOU HAVE DESCRIBED IF THE**

1
2
3
4
5
6
7
8
9
10

**SERVICES YOU HAVE DESCRIBED WERE RENDERED ON A
PLANT SPECIFIC BASIS?**

A. No. Southern States could not provide the high quality service we currently provide to our customers with the same or similar cost efficiencies if the services I have described were rendered on an individual plant basis. The services I have described will be extended to the facilities and customers of Orange Osceola Utilities after SSU's acquisition of them in 1996.

Q. DOES THAT CONCLUDE YOUR TESTIMONY?

A. Yes, it does.