

1 STIP payments for purposes of this Settlement Agreement, including the inclusion of STIP  
2 amounts for union employees, is without prejudice to the position any of the parties may  
3 advance in the next, or future, DTAs.

4 **Response:**

5 FortisAlberta has not included STIP payments that were above the levels agreed to in the  
6 2006/2007 NSA (unless related to forecast risk), in actual results on Schedule 8 of this  
7 Application. Any incentives paid above the 75% target level or related to 50% of the  
8 productivity/operating expense goal were treated as non-regulated expenses. The exclusion  
9 of these amounts from Schedule 8 has not precluded FortisAlberta from including STIP in  
10 total compensation in the 2008/2009 Phase I Tariff Application for consideration by the  
11 AEUB for inclusion in rates charged to customers.

12 **NSA – Paragraph 16**

13 For the 2006 and 2007 Test Years, FAI will continue to record and report actual and forecast  
14 vacancy rates for each department. Further, in its next DTA, FAI will assume new  
15 employees start work at the forecast date of hire, rather than on January 1 of the year.

16 **Response:**

17 FortisAlberta has continued to record and report actual and forecast vacancy rates for each  
18 department in the previous test period and in the current application. Furthermore, in  
19 calculating vacancy rates the forecast date of hire has been used as opposed to a simplifying  
20 assumption that all employees commence work on January 1<sup>st</sup> of a specific test year. Please  
21 refer to Section 4 of this Application.

22 **NSA – Paragraph 18**

23 FAI agrees it will undertake efforts to actively promote and coordinate with other utilities in  
24 Alberta on the development and implementation of communication programs related to

1 **Full Time Equivalents (FTEs)**

2 As part of ongoing NSA commitments, FortisAlberta continues to calculate FTEs based on a  
3 standard work week of 40 hours per week for 52 weeks per year (2080 hours per year). The  
4 following table shows a corporate summary of FTEs for the period 2006-2009.

5 **Table 14 – Corporate FTEs**

	2006 Actual	2007 Current Estimate	2008 Forecast	2009 Forecast	Change 2008/2007	Change 2009/2008
Operations	570.1	619.5	650.6	670.9	31.1	20.3
Customer Service	186.9	192.3	197.0	197.2	4.7	0.2
Corporate Services	30.8	34.2	39.8	39.8	5.6	0.0
Corporate Finance	37.4	37.8	40.2	41.1	2.4	0.9
Information Technology	63.8	77.0	79.9	80.4	2.9	0.5
Corporate General	2.0	2.0	2.0	2.0	0.0	0.0
<b>Total Company</b>	<b>891.0</b>	<b>962.8</b>	<b>1,009.5</b>	<b>1,031.6</b>	<b>46.7</b>	<b>21.9</b>

6 **Note 1:** FTEs are defined as all full-time and part-time employees adjusted for actual/forecast vacancies and date of hire.

7 **Vacancy Rates**

8 As part of ongoing NSA commitments, FortisAlberta continues to track vacancy rates. The  
9 following table summarizes vacancy rates by department.

10 **Table 15 – Corporate Vacancy Rates**

	2006 Actual	2007 Current Estimate	2008 Forecast	2009 Forecast
Operations	2.3%	2.5%	2.6%	2.6%
Customer Service	2.4%	4.1%	4.0%	4.0%
Corporate Services	4.1%	1.0%	1.0%	1.0%
Corporate Finance	3.8%	3.5%	3.5%	3.5%
Information Technology	15.1%	4.3%	4.3%	4.3%
Corporate General	0.0%	0.0%	0.0%	0.0%

1           **4.2    Overview by Function**

2                   **4.2.1   Operations**

3    The role of FortisAlberta's Operations department is to design, construct, operate and  
4    maintain FortisAlberta's distribution system. The department's primary function is to ensure  
5    that electricity is provided to customers in a safe, reliable, effective and cost efficient  
6    manner.

7    Since 2004, the department has been reorganized to improve efficiency and has transitioned  
8    from a centralized delivery model to a local service delivery model with a single supervisor  
9    who has responsibility for labor, equipment and work within an area. The department has  
10   changed the way that work is managed, with a goal of less travel time, less outage time and  
11   improved utilization of resources. This has allowed staff to focus on customer-driven and  
12   reliability capital projects.

13   In 2006, Operations completed a substantial capital program, increased the number of line  
14   repairs, increased the number of high load escorts and underground locates, completed the  
15   required patrols and inspections, and maintained service levels for energize and de-energize  
16   requests.

17   Between 2004 and 2006 system reliability has improved. The normalized three year average  
18   outage frequency (SAIFI) has improved from 1.34 in 2004 to 1.24 in 2006, a 7%  
19   improvement. The normalized three year average outage duration (SAIDI) has improved  
20   from 2.12 in 2004 to 1.89 in 2006, an 11% improvement. Reliability has improved through  
21   investment in a number of programs including the replacement of aging facilities and system  
22   improvements. By investing in new equipment, and providing appropriate employee  
23   training, Operations has completed additional live line work and reduced pre-planned power  
24   outages by 19%. By hiring additional employees and locating them across the service  
25   territory, the average power restoration time has been reduced from 1.12 hours in 2004 to  
26   0.99 hours in 2006, a 12% improvement in two years.

1 Although it has been a period of significant increase in work volumes which has seen the  
 2 addition of many new employees in high risk jobs, safety results have improved as a result of  
 3 a greater focus on field construction activities, improved equipment and focused training.  
 4 The All Injury Frequency Rate (“AIFR”) decreased from 2.59 in 2004 to 1.98 in 2006, a 24%  
 5 improvement.

6 The following tables provide a summary of major operating expense categories and FTEs for  
 7 the Operations department for the period 2006–2009.

**Table 16- Operations Operating Expenses**  
 (\$ Millions)

	<b>2006 Actual</b>	<b>2007 Current Estimate</b>	<b>2008 Forecast</b>	<b>2009 Forecast</b>
Net Salaries & Wages	19.4	21.1	23.5	25.1
Contracted Manpower	16.7	18.1	19.5	21.7
General Operating Expense	7.1	6.5	7.0	7.4
<b>Total Operating Expense</b>	<b>43.2</b>	<b>45.7</b>	<b>50.0</b>	<b>54.2</b>

**Table 17 - Operations FTEs**

<b>2006 Actual</b>	<b>2007 Current Estimate</b>	<b>2008 Forecast</b>	<b>2009 Forecast</b>
570.1	619.5	650.6	670.9

12 In the 2006/2007 NSA, Operations forecast an increase of 77.9 FTEs. Over these two years  
 13 the forecast increase in total FTEs is anticipated to be 76.2. The variance is primarily  
 14 associated with the higher than anticipated attrition rate for PLTs. The department plans to  
 15 increase its FTEs by approximately 31 in 2008 and 20 in 2009. The details associated with  
 16 these increases are outlined under departmental priority 4. Workforce Planning.

1     **2007 Current Estimate – 2008 Forecast Variance Explanations**

2     Operating expenses in Operations are forecast to increase by \$4.3 million in 2008 compared  
3     to the 2007 current estimate. The primary reasons for the increase is salary escalation,  
4     knowledge transfer for apprentices, increased brushing volumes, expenses related to the  
5     mobile generator, and a higher volume of underground locates and high load moves. A  
6     breakdown of operating expense changes by cost category between the 2007 current estimate  
7     and the 2008 forecast is as follows.

8             Net Salaries and Wages

9     Net Salaries and Wages are forecast to increase by \$2.4 million in 2008. The majority of the  
10    increase, \$1.5 million, is due to salary escalation. Requirements to increase distribution  
11    system knowledge and operating experience for apprentice line staff, as discussed further  
12    under departmental priority 4. Workforce Planning, result in additional expenditures of \$0.5  
13    million. Line maintenance work continue to increase and will add expenditures of  
14    approximately \$0.2 million. Other increases include \$0.1 million costs associated with the  
15    use of the mobile generator during storm restoration and planned maintenance activities, and  
16    \$0.1 million for costs associated with training new employees.

17            Contracted Manpower

18    Contracted Manpower is forecast to increase by \$1.4 million in 2008. The majority of the  
19    increase, \$1.0 million, is due to increased volume and escalation for brushing work as  
20    discussed further under departmental priority 3. Reliability - Preventative Maintenance.  
21    Other increases include \$0.1 million escalation in contracted maintenance activities such as  
22    transformer oil testing, underground cable testing and insulator washing. An increase in the  
23    volume of work and an escalation in the cost of underground locate requests results in  
24    additional expenditures of \$0.3 million.

1           General Operating Expense

2       General Operating Expense is forecast to increase by \$0.5 million in 2008. Approximately  
3       \$0.3 million is the result of escalation. Increased staff and accommodation costs associated  
4       with training new employees results in additional expenditures of \$0.1 million. The increase  
5       in the size of the vehicle fleet and the use of the mobile generator will increase fuel and  
6       vehicle operating expenses by \$0.3 million. These increases are partially offset by a \$0.2  
7       million increase in transfers to capital.

8       **2008 Forecast - 2009 Forecast Variance Explanation**

9       Operating expenses are forecast to increase by \$4.2 million in 2009 compared to the 2008  
10       forecast. The primary reason for the increase is salary escalation, USA/MFR sustainment  
11       expenses and increased brushing and underground locates. A breakdown of operating  
12       expense changes by cost category between the 2008 Forecast and the 2009 Forecast is as  
13       follows.

14           Net Salaries and Wages

15       Net Salaries and Wages are forecast to increase by \$1.6 million in 2009. The majority of the  
16       increase, \$1.3 million, is due to escalation and salary step increases for apprentice line staff  
17       as they progress towards journeyman status. The other increase, \$0.3 million, is in costs  
18       associated with the sustainment of the USA/MFR.

19           Contracted Manpower

20       Contracted Manpower is forecast to increase by \$2.2 million in 2009. The majority of the  
21       increase, \$1.7 million, is due to higher volumes and an escalation in costs for brushing work  
22       as discussed further under departmental priority 3. Reliability - Preventative Maintenance.  
23       Other increases include \$0.2 million escalation on contracted maintenance activities such as  
24       transformer oil testing, underground cable testing, and insulator washing. Additional volume

1 of work and escalation on underground locate requests results in increased expenses of \$0.3  
2 million.

3 General Operating Expense

4 General Operating Expense is forecast to increase by \$0.4 million in 2009. Approximately  
5 \$0.3 million of this increase is the result of escalation. Staff and other expenses associated  
6 with new employees will result in an increase of \$0.1 million. Increased vehicle fuel and  
7 maintenance costs associated with higher prices and increases in the size of the vehicle fleet  
8 account for \$0.1 million. These increases are partially offset by a \$0.1 million increase in  
9 transfers to capital.

10 **Operations Priorities**

11 The Operations department is responsible to operate and maintain the electrical system,  
12 design and construct new facilities, engineering, environment health and safety, employee  
13 technical training, customer quotations and fleet.

14 The electrical system includes approximately 100,000 kilometers of lines, 900,000 poles,  
15 156,000 transformers, 90,000 streetlights and other equipment such as regulators, reclosers,  
16 and switches. The system covers 240,000 square kilometers of service territory and serves  
17 approximately 430,000 customers. The demands on the Operations department are high as  
18 employees respond 24 hours per day, 7 days per week to the increasing needs of customers.

19 In 2008 and 2009, the Operations department will continue to focus on completing  
20 significant capital programs while carrying out necessary maintenance and service work.

21 Operations will manage costs and improve operating performance, reliability, and customer  
22 service by ensuring effective utilization of the workforce and by making strategic  
23 investments in the electrical system. Also in 2008, an additional \$20.4 million in capital  
24 work will be completed to service new load and improve reliability of the system.

25 Operations will be required to complete additional customer work as a result of the