

1 Q. (Reference 2017 GRA Volume II, Exhibit 2, page 4) It is stated (line 5) *“The NLSO will*  
2 *reside in Hydro but will be functionally separate”*. If the objective is to ensure  
3 functional separation, why will NLSO reside within Hydro rather than outside  
4 Hydro? What are FERC requirements in this regard?

5  
6  
7 A. It is common practice for a system operator to reside within the utility that serves in  
8 a given jurisdiction because it is more efficient, from a cost standpoint as well as  
9 logistically, for a single entity to be responsible for the dispatch of generation, and  
10 the operation of transmission and distribution facilities in the jurisdiction. Further,  
11 since Hydro already had a System Operations group, creating a new entity was  
12 unnecessary, and establishing such an entity would add to the cost and effort  
13 required to implement open access.

14  
15 The FERC Standards of Conduct rely on a functional separation, as opposed to a  
16 corporate or structural separation of employees within a corporate family. The  
17 standards are not intended to require a utility to change its corporate structure  
18 where a transmission operator has vertically integrated operations, as does Hydro.  
19 Rather, Transmission Function Employees must function independently from  
20 Market Function Employees whether they are employed within the corporate  
21 structure of the transmission provider or by an affiliate of the transmission  
22 provider. The key focus is on the functional separation of employees and duties,  
23 rather than on corporate reorganization for Standards of Conduct compliance. For  
24 additional information on FERC requirements in this regard, please refer to Hydro’s  
25 response to LAB-NLH-043.