

**Q: Re: Pre-Filed Testimony of the Helios Centre (Mr. Raphals), page 28, section 4:**

**Hydro has not explained its choice of the System Operator model, as opposed to the much simpler model of a functionally separate transmission operator within an integrated utility. It would be helpful if Hydro were to share with the Board and the interested parties a roadmap encompassing all the structural changes it intends to undertake, to allow reasoned consideration of the best path forward.**

**Please explain why a functionally separate transmission operator model within an integrated utility would be a simpler model than the model chosen by Hydro?**

A. The following is the response of Mr Phil Raphals:

Hydro has not provided a clear and concise explanation of its vision of the role of the NLSO. However, some of the information provided in response to RFIs suggests that it is conceived on the model of an independent system operator, such as those that operate in New York, New England, Ontario and many other jurisdictions.

For some of these functions, their exercise by a system operator that is part of one of the utilities in the control area (NL Hydro) may be problematic. For instance, Hydro indicates that the NLSO will:

- be responsible for all transmission operations in Labrador, including the operation of the 735-kV lines running from the Churchill Falls Generating Station to the Quebec border,<sup>3</sup>
- have the role of Balancing Authority,<sup>4</sup>
- collect the transmission tariff from all transmission customers, and remit the amounts received to the transmission asset owners in accordance with their revenue requirements;<sup>5</sup>
- charge Hydro (of which it a part) under the same transmission tariff as other users.<sup>6</sup>

The NLSO would apparently remain an administrative entity within NL Hydro, which is in turn a subsidiary of Nalcor Energy. Furthermore, Hydro has indicated that it does not intend to

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<sup>3</sup> LAB-NLH-044, page 2 of 3.

<sup>4</sup> LAB-NLH-045, pages 1 and 2 of 2.

<sup>5</sup> LAB-NLH-063, page 2 of 3. No mention has been made of an agreement with CF(L)Co with respect to charging for the use of the 735-kV transmission lines to Quebec, which I understand it owns.

<sup>6</sup> Exhibit 2, page 4.

implement any codes of conduct to isolate the NLSO from its other activities. Under these circumstances, it is far from certain that other transmission operators in the province will voluntarily cooperate with it in the same way that they would with an independent system operator.

The alternate approach, of establishing a functionally separate transmission entity with NL Hydro, which would operate independently under the FERC model, is a well understood approach, which has been used in Quebec for many years. It should be noted that, while the Quebec OATT is based on the FERC pro forma, the Quebec Energy Board has made many adaptations over the years to adapt the FERC approach to that of a vertically integrated utility with functional separation.