

Chapter 3

Section 3.04

Hydro One—Management of Electricity Transmission and Distribution Assets

Standing Committee on Public Accounts Follow-Up on Section 3.06, 2015 Annual Report

The Committee held a public hearing in March 2016 on our 2015 audit of Hydro One—Management of Electricity Transmission and Distribution Assets. It tabled a report in the Legislature resulting from this hearing in December 2016. The report can be found at www.auditor.on.ca/en/content/standingcommittee/standingcommittee.html.

The Committee endorsed our findings and recommendations. It made 10 additional recommendations and asked Hydro One to report back by April 2017. A number of issues raised by the Committee were similar to the observations we made in our 2015 audit, which we have also followed up on this year (see **Section 1.06**). Hydro One formally responded to our Office and the Committee on April 26, 2017, with an update on activities it has undertaken. We found that the update provided only information on actions taken to address our recommendations but not the Committee's recommendations.

In early May 2017, we requested Hydro One to provide further details and supporting documents for the activities it has taken. In response, Hydro One notified our Office that its update to our Office and the Committee was provided as a good faith effort and courtesy, and that Hydro One is no longer subject to inquiries by our Office. In

June 2015, the government passed the *Building Ontario Up Act, 2015*, under which Hydro One is no longer an agency of the Crown; therefore, our Office no longer has the authority to do audit or follow-up work on Hydro One, and Hydro One is not required to participate in this follow-up.

Without receiving further details from Hydro One to verify and support the information in its update, our Office was only able to assess and report on the status of some, but not all, of our recommendations (see **Section 1.06**) and was not able to assess and report on the status of any of the Committee's recommendations.

The status of the Committee's recommendations is shown in **Figure 1**.

We conducted assurance work between April 1, 2017 and July 26, 2017. To meet new Canadian auditing standards, we requested Hydro One's CEO and/or Vice President to sign a management representation letter, dated September 1, 2017, at the completion of our work. The purpose of the letter was to obtain written representation from Hydro One that it had provided us with a complete update of the status of the recommendations made in the original audit two years ago. On August 29, 2017, Hydro One responded that it declined to sign this letter or any similar document. Hydro One indicated

Figure 1: Summary Status of Actions Recommended in December 2016 Committee Report

Prepared by the Office of the Auditor General of Ontario

	# of Actions Recommended	Status of Actions Recommended				
		Fully Implemented	In Process of Being Implemented	Little or No Progress	Will Not Be Implemented	No Longer Applicable
Recommendation 1	4					4
Recommendation 2	1					1
Recommendation 3	3					3
Recommendation 4	2					2
Recommendation 5	1					1
Recommendation 6	5					5
Recommendation 7	1					1
Recommendation 8	3					3
Recommendation 9	3					3
Recommendation 10	1					1
Total	24	0	0	0	0	24
%	100	0	0	0	0	100

that since it ceased to be an agency of the Crown following passage of the *Building Ontario Up Act, 2015*, it was not required to participate in this follow-up, and it was not appropriate for it to sign the letter.

Overall Conclusion

According to the information Hydro One provided to us, as of July 26, 2017, all of the Committee's recommendations have been classified as no longer applicable. As a result of the *Building Ontario Up Act, 2015*, Hydro One is not required to respond to our inquiries and participate in our follow-up work. We were therefore unable to assess the status of the Committee's recommendations.

Detailed Status of Recommendations

Figure 2 shows the recommendations and the status details that are based on responses from Hydro One, and our review of the information Hydro One provided.

Figure 2: Committee Recommendations and Detailed Status of Actions Taken

Prepared by the Office of the Auditor General of Ontario

Committee Recommendation	Status Details
<p>Recommendation 1 Hydro One:</p> <ul style="list-style-type: none"> • provide the Committee with annual reliability targets over the next five years, starting with 2017, for its transmission system, both for its multi- and single-circuit systems; • provide a comparison of its five-year reliability targets with those established by comparable peer utilities in North America (and provide an explanation where its targets are weaker); • report back annually for the next five years, starting with the 2017 year, to the Committee on its achievement of these targets, including an assessment of the factors that contributed to meeting or not meeting the targets; and • provide the Committee with its risk management plan, including estimated costs, on climate change and detail how climate change is expected to impact the reliability targets of its transmission system. <p>Status: No longer applicable.</p>	<p>We were unable to obtain further information from Hydro One in order to assess the status of the Committee's recommendation.</p>
<p>Recommendation 2 Hydro One provide the Committee within six months with an assessment on the requirements of its preventive maintenance work orders, including how critical maintenance is defined, whether all critical maintenance work is completed on time, the extent and types of preventive maintenance that are required, and whether effective preventive maintenance programs are in place and followed for each key type of transmission asset.</p> <p>Status: No longer applicable.</p>	<p>We were unable to obtain further information from Hydro One in order to assess the status of the Committee's recommendation.</p>

Committee Recommendation	Status Details
<p>Recommendation 3 Hydro One provide the Committee with:</p> <ul style="list-style-type: none"> its criteria for determining the appropriate timing for replacing key transmission assets, such as transformers, circuit breakers, towers, and wood poles; a comparison of its criteria for determining the appropriate timing for replacing key transmission assets with those used by other peer utilities in North America; and its own assessment of its capital deficit for each type of key transmission asset and the expected cost of asset replacement. Status: No longer applicable. 	<p>We were unable to obtain further information from Hydro One in order to assess the status of the Committee's recommendation.</p>
<p>Recommendation 4 Hydro One provide the Committee within one year with an assessment of the Asset Analytics system (both for its transmission system and distribution system assets), including</p> <ul style="list-style-type: none"> whether the Auditor's concerns have been fully addressed; and an analysis of how well the Asset Analytics system reflects the conditions of the assets in the field. Status: No longer applicable. 	<p>We were unable to obtain further information from Hydro One in order to assess the status of the Committee's recommendation.</p>
<p>Recommendation 5 Hydro One update the Committee on the status of its new comprehensive security program that will apply to all electronic devices, including a target as to when all transmission assets will be in compliance with the new North American Electricity Reliability Corporation requirements. Status: No longer applicable.</p>	<p>We were unable to obtain further information from Hydro One in order to assess the status of the Committee's recommendation.</p>

Committee Recommendation	Status Details
<p>Recommendation 6 Hydro One:</p> <ul style="list-style-type: none"> • provide the Committee with annual reliability targets over the next five years, starting with 2017, for its distribution system; • provide a comparison of its five-year reliability targets with those established by comparable peer utilities in Canada (and provide an explanation where its targets are weaker); • report back annually for the next five years, starting with the 2017 year, to the Committee on its achievement of these targets, including an assessment of the factors that contributed to meeting or not meeting the targets; • provide the Committee with the results of its consultations with customers on service expectations, including reliability; and • provide the Committee with a risk management plan on climate change and detail how climate change is expected to impact reliability targets of its distribution system. <p>Status: No longer applicable.</p>	<p>We were unable to obtain further information from Hydro One in order to assess the status of the Committee’s recommendation.</p>
<p>Recommendation 7 Hydro One provide the Committee with a summary of the results of the third-party assessment of the optimal length of its vegetation management cycle.</p> <p>Status: No longer applicable.</p>	<p>We were unable to obtain further information from Hydro One in order to assess the status of the Committee’s recommendation.</p>

Committee Recommendation	Status Details
<p>Recommendation 8 Hydro One provide the Committee with:</p> <ul style="list-style-type: none"> • its criteria for determining the appropriate timing for replacing key distribution assets, such as transformers, circuit breakers, and wood poles; • a comparison of its criteria for determining the appropriate timing for replacing key distribution assets with those used by other peer utilities in Canada; and • its own assessment of its capital deficit for each type of key distribution asset and the expected cost of asset replacement. Status: No longer applicable. 	<p>We were unable to obtain further information from Hydro One in order to assess the status of the Committee's recommendation.</p>
<p>Recommendation 9 Hydro One provide the Committee with a timetable to fully implement the usage of smart meters, including:</p> <ul style="list-style-type: none"> • proactively identifying power outages; • using this information to dispatch work crews; and • the expected improvements to service and projected cost savings that are anticipated as a result. Status: No longer applicable. 	<p>We were unable to obtain further information from Hydro One in order to assess the status of the Committee's recommendation.</p>
<p>Recommendation 10 Hydro One provide the Committee with a report on its major projects (>\$1 million) completed in 2015. This report shall compare: the original project estimate without allowances; the approval amount, including allowances; and, the actual cost for each project. Hydro One will also report to the Committee again in one year and two years for the projects completed in 2016 and 2017, respectively. Status: No longer applicable.</p>	<p>We were unable to obtain further information from Hydro One in order to assess the status of the Committee's recommendation.</p>