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**November 10, 2016**

**VIA RESS AND COURIER**

Kirsten Walli  
Board Secretary  
Ontario Energy Board  
P.O. Box 2319  
2300 Yonge Street, 27th Floor  
Toronto, Ontario M4P 1E4

Dear Ms. Walli:

**RE: EB-2016-0160 Hydro One Networks Inc. (“Hydro One”) Transmission Rates Application – Additional Evidence – Internal Audit Reports**

The Ontario Energy Board (“**Board**”) released its Decision on Motions for Full and Adequate Responses to Interrogatories and Technical Conference Questions on November 1, 2016 (the “**Motions Decision**”).

Pursuant to the Motions Decision, the Board requires Hydro One to file the following internal audit reports on an interim confidential basis:

- Audit of Investment Planning #2014-29 (January 30, 2015); and
- Transmission Lines Preventive Maintenance Optimization #2015-33 (April 7, 2016)

(collectively, the “**Reports**”).

The Motions Decision provides that the Reports are afforded interim confidential status, subject to Hydro One providing its reasons for maintaining that status.<sup>1</sup>

Hydro One respectfully requests the Board to maintain the confidential status of the Reports going forward for the following reasons: (1) the Reports fall within the requirements outlined in the Board’s Practice Direction on Confidential Filings (“**Practice Direction**”); and (2) Hydro One’s internal auditing and reporting processes will be adversely impacted by disclosure.

***Practice Direction Requirements for Confidential Treatment are Fulfilled***

Hydro One submits that the Reports meet the requirements for confidential treatment set out in the Practice Direction. The confidential treatment mechanism is designed to strike a balance between protecting information that has been properly designated as confidential and providing

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<sup>1</sup> Decision on Motions for Full and Adequate Responses to Interrogatories and Technical Conference Questions (1 November 2016), p 7.

parties "with a fair opportunity to present their cases and permit the Board to provide meaningful and well-documented reasons for its decisions".<sup>2</sup>

Hydro One recognizes both the importance of this balance, and the utility of the mechanism that the Board has created in order to obtain this balance. The present circumstances are ideally suited for use of the Board's confidential treatment mechanism for the Reports.

When determining whether information should be disclosed, the Practice Direction provides that the Board may consider the potential harm from disclosure. The Board may also consider "whether the information consists of a trade secret or financial, commercial, scientific, or technical material that is consistently treated in a confidential manner by the person providing it to the Board."<sup>3</sup> Hydro One has consistently treated all internal audit reports as confidential and commercially sensitive documents.

The nature of the internal audit process is one that, by design, is intended only for management's internal and not external use. The internal audit process achieves the important objective of providing informed insights into improving the Hydro One's processes and affairs, by having these reports prepared and written in a manner that is not intended for external use or disclosure. Treating such work product confidentially is a crucial aspect of this process, as it ensures that frank, detailed, and useful recommendations are provided with the goal of continuous improvement. Therefore, the Reports have not been publicly shared or disseminated. The Reports have consistently been used for internal management purposes. The Reports were not prepared on the assumption that they would become publicly available.

The Reports therefore fall within the ambit of the Practice Direction by virtue of their commercially sensitive nature and their consistent confidential treatment by Hydro One and other entities.

### ***Internal Auditing Process will be Adversely Impacted***

Hydro One appreciates the important interest of ensuring that sufficient information is on the public record to allow for a full and fair proceeding. However, Hydro One is concerned with future adverse impacts to its internal audit process caused by the public disclosure of this information. The Board's confidential treatment mechanism is available to address this concern, allowing a full and fair proceeding to occur without any resulting adverse impacts.

The Reports are the work products of Hydro One's internal audit function. Hydro One's internal audit function has been an effective means to assess and evaluate internal processes for management review and direction. Detailed audit findings are presented in a manner that can generate discussion, internally, with management for the purpose of working towards appropriate solutions and continuous improvement. As a result, the candid nature of the discussion and the level of detail included in these reports is more appropriate to internal management decision-making, and can be commercially sensitive. Requiring the audit function to write their reports on the assumption that the detailed findings will be subject to public review will reduce the effectiveness of the reports to management and add unnecessary cost and formality.

In Hydro One's view, these impacts to Hydro One's internal audit process are problematic, as they put at risk the manner in which Hydro One will be effectively managed in the future.

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<sup>2</sup> Ontario Energy Board *Practice Direction on Confidential Filings* (13 October 2011), p 7 [Practice Direction].

<sup>3</sup> Practice Direction, Appendix A.

The need and use of confidential, commercially sensitive information in management's affairs is a business reality. As it concerns the regulatory process, the Board has established a reasonable process to ensure such information is protected in that light – to ensure that the balance outlined in the Practice Direction is achieved.

Protecting the confidentiality of the Reports will ensure a fair and sufficient process before the Board, and such treatment will prevent undue harm resulting from disclosure.

Yours truly,

**McCarthy Tétrault LLP**

Per:



For: Gordon M. Nettleton  
GMN