

Osler Hoskin & Harcourt LLP

# Value Through Innovation: Local Distribution Companies of the Future

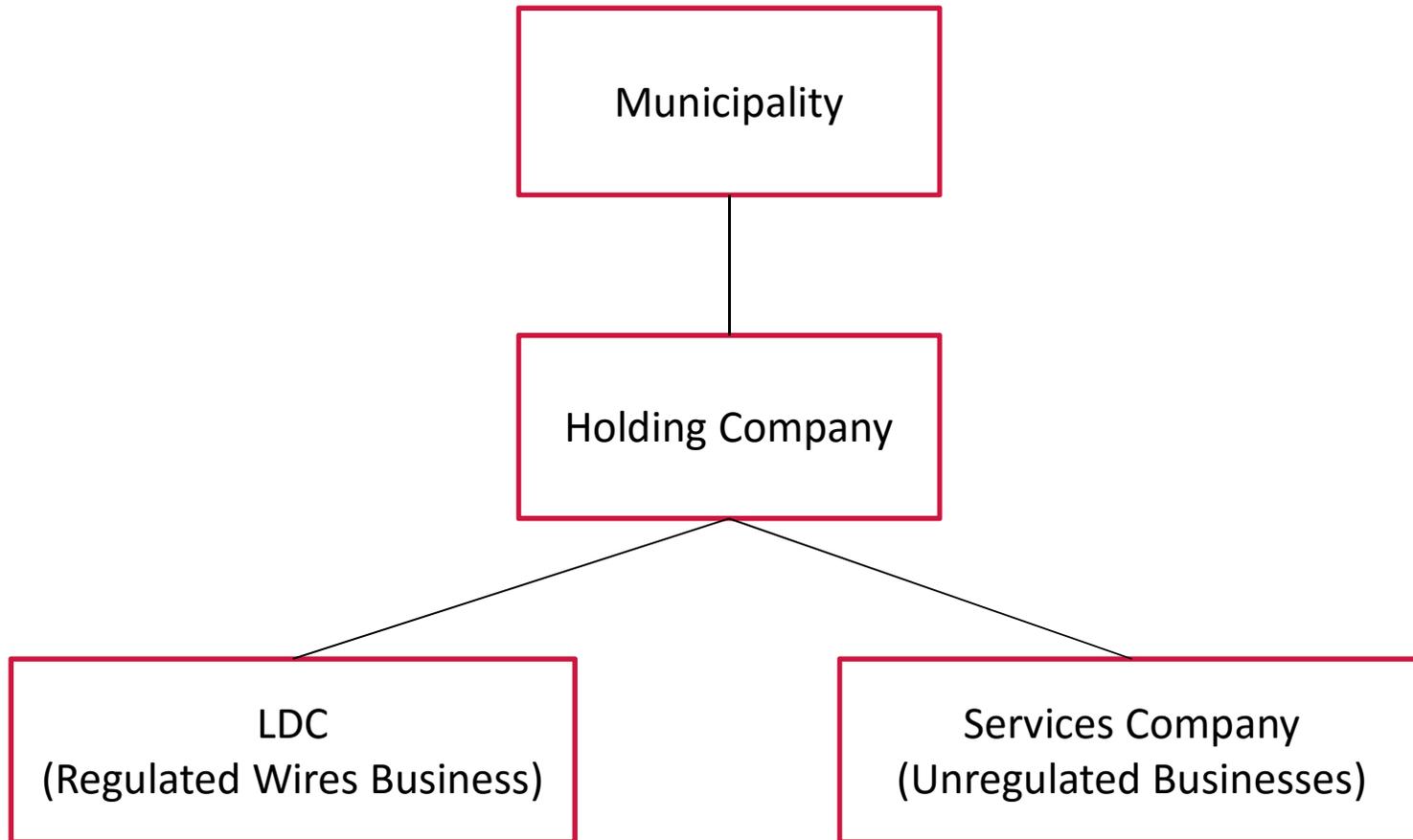


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- 1998: Transitioning to a “competitive” market for electricity in Ontario
- Meant two things for municipal electric utilities (MEUs):
  - Setting up MEUs as stand-alone local distribution companies (LDCs) to be regulated by the Ontario Energy Board (OEB)
  - Clear delineation between the “wires” companies (LDCs and electricity transmitters) on the one hand, and competitive generation companies on the other hand
- Legislation clear: LDCs can only carry on the business of distributing electricity. If you want to do something else, do it through an affiliate company.



- Three things start to prompt a re-think of the “pure utility” model:
  - A true “competitive market” for electricity generation does not materialize
  - Technological changes (smart meters, distributed generation, energy storage, electric vehicles, etc.)
  - Government policy (conservation, smart meters, etc.)
- Less concerned about clear separation of “wires” business and electricity generation
- LDCs well placed to play a role in implementation of new technologies and government policy

- 2004: LDCs now permitted to provide services related to:
  - promotion of electricity conservation
  - electricity load management
  - promotion of renewable energy sources
- 2009-2011: LDCs permitted to own and operate:
  - a renewable energy generation facility 10MW or less
  - a cogeneration facility
  - an energy storage facility
- 2016: LDCs permitted to carry on any business activities if Ontario Energy Board determines “special circumstances” require

- These technological and policy changes will create opportunities for LDCs (and others)
- From a legal perspective, the key issue that will face LDCs and their owners revolve around the appropriate business model?
  - Undertake the opportunity within the regulated utility (i.e., the LDC), which has ratepayer aspects to it?
  - Is it more advantageous to undertake the opportunity within a separate (affiliate) company?
  - Is there a need or advantage to undertaking the opportunity in conjunction with a partner?
  - Do we need greater scale to take advantage of the opportunities? Or are we at risk of losing out on opportunities to energy service companies?