

2026

Survey of Local Distribution Company Chief Executive Officers

Second Annual Edition

STRATEGY CORP

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Executive Summary – What We Heard Across the Board

A SECTOR WAITING ON DIRECTION.

The PULSE Panel has supposedly completed its work, but its recommendations have not been released. Until they are and the way forward is clearer, CEOs are reluctant to commit to decisions on ownership, governance, and financing that the Panel could reshape. Financing is where that wait is felt most. LDC capital needs will continue to grow under a policy framework that asks utilities to enable growth and hold down bills at once. Utilities are increasingly turning to private capital, to unused debt capacity, or to a slower pace of investment. In each case, what can be financed is increasingly determining what gets built.

SHAREHOLDERS ARE ASKING FOR MORE THAN A DIVIDEND.

Municipalities increasingly expect their utility to be a visible community partner and a contributor to local economic development. Meeting that expectation has required LDCs to build new skillsets and to plan alongside their municipalities in real time. That closer contact is producing a stronger relationship between utilities and their shareholders. CEOs intend to build on it, beginning with earlier and more frequent engagement with the council members elected this Fall.

GROWTH MEANS SOMETHING DIFFERENT TO EACH LDC.

Growth in the sector is typically associated with consolidation, but the CEOs we interviewed described a much wider range of paths. Some are focused on organic growth, where development inside their own service territories is adding load and customers at a rapid pace. Others are focused on adjacent regulated roles, such as transformer stations, transmission connections, and DSO capabilities. Others are building affiliate businesses with a more focused and disciplined approach than in the past. Which path a utility takes depends on its local circumstances, the risk appetite of its shareholder, and the capital available to it.

THE OEB RELATIONSHIP IS IMPROVING, WITH THE REAL TEST STILL AHEAD.

A year after new leadership and a broader mandate arrived at the OEB, CEOs reported a more constructive approach to compliance by the regulator. However, CEOs still express concerns about the length and cost of service applications, and are waiting to see how the regulator's new objective to support economic growth plays out in rate decisions. This is a key issue that CEO are watching with interest. CEOs recognize that it may take a few application cycles to see the impact of the economic growth objective.

THE INTERNAL WORKINGS OF THE LDC MATTER MORE THAN EVER.

Last year's survey looked almost entirely at the external environment, yet an LDC's ability to respond to everything described above depends on what is happening inside it. CEOs pointed first to their people. It is difficult to recruit experienced people, the burden on existing teams has increased, and developing the next generation of managers and leaders has become a priority across the sector. They pointed next to AI, which has moved quickly from the margins of utility strategy to its centre. Every CEO reported that AI tools were used within their organisation and, several highlighted the potential for the sector to develop and share AI platforms.

Introduction

This report represents the second annual edition of StrategyCorp's survey of Local Distribution Company (LDC) Chief Executive Officers (CEOs) in Ontario.

This survey's inaugural edition, published in 2025, emerged from the energy-related themes that had surfaced consistently through our long-running Ontario Municipal Chief Administrative Officer (CAO) Survey. Having concluded that these themes warranted direct engagement with the leaders of Ontario's municipally owned utilities, we undertook a series of confidential interviews and published what we heard. LDC CEOs had a great deal of valuable insight to offer on the sector and its trajectory and welcomed a forum in which to share it.

Since then, the sector environment has changed quite a bit, with a number of pressures already visible at the time of the inaugural edition having intensified. Capital investment pressures continue to rise while debt capacity and dividend expectations constrain how and whether capital needs can be met. And the timing and scale of electrification-driven demand remain genuinely uncertain, even as large-load and data centre inquiries have become a planning reality.

Several developments, however, are substantially new. The Panel for Utility Leadership and Service Excellence (i.e., PULSE Panel) was launched to examine governance, financing, and ownership models across the sector, and its recommendations remain outstanding at the time of writing. Bill 40 has received Royal Assent, embedding economic growth within the statutory mandates of both the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), and shifting the sector's dominant policy frame more towards affordability and growth. The OEB has appointed new leadership and is advancing a substantially heavier consultation agenda, spanning distribution system operator capabilities, next-generation rate design, and system hardening. Lastly, artificial intelligence, scarcely present in utility strategy conversations a year ago, has moved to their centre.

This edition of the survey draws on two sources of insight. The first consists of confidential interviews conducted specifically for this publication with a new group of LDC CEOs representing utilities of varying size and situated across different regions of the province. The second source is StrategyCorp's own insights from work with utilities across the sector over the past year. Combining the two gives this report a wider view of the sector than the interviews alone would provide and helps us to tell the difference between what is true of one utility and what is true more broadly.

As always, we committed to every participant that we would faithfully and accurately record and report what they told us, and that all comments would remain confidential and non-attributable. Direct quotations appear throughout this report, with only minor edits for clarity, brevity, or to preserve anonymity. Observations attributed to "StrategyCorp's perspective" draw on our broader work with LDCs across Ontario, generalized to protect the confidentiality of every client relationship. No client-specific content or discussion is referenced anywhere in this report.

It is also important to note that this report presents qualitative insight rather than a statistically representative sample. The observations here reflect the participants we interviewed and the clients we have worked with. The perspectives and realities of individual LDCs across the province may differ from what is described.

As with the inaugural edition, we hope that this report advances the continuing dialogue regarding the critically important and evolving role that LDCs play in their local communities.

CHAPTER

01

A Sector at an Inflection Point

“Living in uncertainty is painful. If something is in the national interest or the provincial interest, then we should make a decision. Not everybody’s going to be happy, but we should just make it happen.”

The inaugural edition described a sector under pressure. This year, the pressure has not eased – LDCs are facing an array of policy, legislative, and regulatory developments that have the potential to drastically impact how they operate for years to come.

1.1 POTENTIAL REFORM IN A POLICY VACUUM

The PULSE Panel was established in October 2025 to examine operational performance, financing gaps, ownership and governance models, and shared services. Its recommendations to the Minister of Energy and Mines were anticipated in early 2026, alongside the provincial budget. At the time of writing, they remain outstanding, though they may be revealed after the conclusion of municipal elections in the fall of 2026.

Waiting for a report is different from participating in a consultation. During a consultation, LDCs can contribute. While waiting, they can only anticipate and prepare. Most of the CEOs we spoke with described the same position: engaged, ready, and reluctant to commit until more is known.

> **“We’re remaining flexible in terms of what we think will come up, but we’re not going to do anything rash until we actually know what those recommendations will look like.”**

For many LDCs, they were direct about the cost of waiting.

> **“I’m used to decisive action. We’re part of a bigger system of government, and I don’t think we have very decisive action on what we want.”**



1.2 AFFORDABILITY AND GROWTH IN TENSION

LDC leaders understand that affordability and economic growth have become the dominant policy frames for government.

Bill 40, *Protect Ontario by Securing Affordable Energy for Generations Act*, received Royal Assent in December 2025 and requires both the OEB and IESO to consider economic growth and job creation in their planning and regulatory work. Together with the Province's *Energy for Generations* integrated energy plan, this has moved the policy emphasis toward affordability, reliability, and economic growth.

On one side, some LDCs are embracing this change in the policy environment. Given that economic growth is now something that the regulator must weigh, utilities should consequently have a stronger basis for investment that supports development in their communities. Several CEOs argued that this is where the value of a municipally owned utility is most evident.

> **"That's where the value in the utility is locally. It drives economic development, it drives GDP growth. Customers should be proud that they own an asset that can really help them."**

On the other side, LDCs view this new framing by the province as a barrier. For them, affordability has become the test that every major investment must pass. LDCs are therefore being asked to enable growth and hold down bills at the same time, without a clear indication of which takes precedence when the two conflict.

The difficulty is that the investment cannot reasonably be deferred. Aging assets require replacement, growth requires new capacity ahead of the load that will use it, and system hardening, cyber security, and resilience expectations continue to increase. These are not discretionary programs that can be scaled back in a difficult year without consequence. They are the basis on which the system continues to operate.

The result of this is a gap between what the system requires and what the rate case will support, and that gap is widening rather than closing.

> **"The big challenge is balancing affordability with being able to get the increases we need from the regulator to fund some of the things we've been doing and some of the things we're thinking of doing."**

1.3 THE CAPITAL QUESTION IS NOW HARDER TO ANSWER

The OEB's deemed capital structure has long been a bone of contention – with many LDCs seeing it as a serious constraint on their ability to finance new infrastructure.

In March 2025, the OEB concluded its generic proceeding on cost of capital. It revised the methodology for setting cost of capital parameters and left the deemed capital structure unchanged, finding that the existing approach continued to produce a fair return. An individual distributor may still seek a capital structure specific to its own circumstances, but the evidentiary burden is high and it is rarely attempted. The remedy the sector had focused on (i.e., regulatory reform) is therefore no longer available in the near term.
With that route closed, LDCs are responding

in different ways. Some are looking away from traditional sources of capital entirely. Several CEOs described canvassing every party willing to discuss financing a distribution utility.

> **"We're looking at banks, private equity, and anybody else who is open to having a conversation about how they can support us with our finances."**

"We've almost closed our first private equity deal. Now that we've gotten our feet wet with private equity, I think that's something the boards and the shareholder will continue to explore."

Other LDCs are reassessing what the balance sheet can already support. In more than one conversation, CEOs described utilities carrying considerably less debt than their financial position would allow, because assumptions set years earlier had never been revisited.

> **"We – like other LDCs – are under-leveraged. We have a ton of financial capacity to fund and accelerate grid modernization."**

Another group of LDCs are adjusting the pace of capital investment. This means that capital programs are being sequenced more tightly, with projects deferred where funding is not clearly available. Consequently, faster-growing utilities are returning to the regulator more frequently than the rate cycle anticipates, because they cannot wait five years to recover what they are spending now. Across all of these strategies, there is a common denominator: the pace of investment is increasingly set by what can be financed rather than by what the system requires. And the sector is keenly aware that this is an area that the PULSE Panel is seeking to address.



StrategyCorp's Perspective

The common thread across this section is that LDCs are being asked to make decisions with long-term consequences without required policy and regulatory clarity.

First, it is evident that most, if not all, LDCs are concerned about about PULSE recommendations. The panel has completed its work and the sector engaged with it constructively. The release of the Panel's recommendations would allow LDCs to resume important decisions on ownership, governance, and financing that are difficult to advance in the interim.

LDCs are also seeking better understanding of how affordability and economic growth are intended to fit together. Bill 40 brings both into the OEB's mandate, and utilities would benefit from an indication of how the two are to be balanced when they pull in different directions. In the absence of that guidance, the question tends to be worked through in individual rate proceedings, which is a slower and less consistent route than a clear signal from the regulator.

CHAPTER

02

The LDC-Shareholder Relationship

"They want us to be community partners. Now it's about being visible in the community, whether it's community events or learning sessions to explain to customers how a bill works, connecting with our commercial partners, or setting up key account managers for certain portfolios."

The relationship between LDCs and their municipal shareholders remains an area of critical importance for CEOs. This year's survey highlighted the extent to which municipalities are asking their LDCs to do more within the communities they serve.

2.1 HEIGHTENED SHAREHOLDER EXPECTATIONS

The inaugural edition described a range of shareholder relationships, including some in which the LDC was valued primarily for the revenue it returned. That perspective is still present, and it is a reasonable one. Municipal budgets are under considerable strain, dividends from the utility are among the few reliable non-tax revenues available to a council, and shareholders that rely on them have sound reasons for doing so.

What has emerged alongside dependable non-tax revenue is a wider set of expectations. Shareholders increasingly look to the utility to be present in the community in ways that go beyond reliable service: participating in local events, helping customers understand their bills and the support available to them, and maintaining relationships with the commercial and institutional customers that matter to the local economy. Several CEOs described this as a shift from "operating in the background" toward a more visible and continuous presence in the communities served by the LDC.

> **"You want them [the customer] to pick you even though they don't have a choice. How do you get them to say, if you gave me ten other options, I would still pick you?"**

Most CEOs welcomed this stronger focus on community engagement and they pursue it deliberately. Several observed that a utility which earns its standing in the community is in a stronger position with customers, with its shareholder, and with the regulator than one that relies on its monopoly position.



2.2 LDC's ARE GETTING BETTER AT CONTRIBUTING TO LOCAL ECONOMIC DEVELOPMENT

Municipalities increasingly understand that their ability to attract new residential, commercial or industrial development depends on the availability of grid capacity when needed. However, that understanding has not been matched by day-to-day coordination between municipalities and their LDCs. Several CEOs described planning processes that have historically run in parallel rather than together, with the LDC learning of a development only after decisions had already been made by the municipality. This is not unique to any one community, and it reflects long-standing practice on both sides rather than a lack of interest.

A number of CEOs confirmed that their LDCs have moved past this old way of working and are now working in tandem with their municipalities to plan for and attract development. CEOs described this as the difference between being able to shape an outcome and being asked to accommodate one. It also allows the utility to give a prospective investor a credible answer on timing and capacity, which is often what determines whether a project proceeds in that community.

"We participate quite heavily with our economic development corporation in terms of attracting investment to the area. So, when opportunities are early on in the process, we're already involved and engaged."

"For a long time, we largely worked in a vacuum … we did not integrate our planning into theirs [local / regional municipal planning processes]."



2.3 SOME LDC's ARE REVIEWING GOVERNANCE AHEAD OF POTENTIAL REFORM

The LDC sector continues to be characterized by a range of governance models – some LDCs have adopted an arm's length relationship with their municipal shareholder with a board comprised predominantly of independent directors, while others have continued with boards having a strong representation of municipal officials. Several CEOs noted the value of municipal representation, particularly in helping to maintain the shareholder's understanding of the LDC business, while also acknowledging the value of matching that municipal representation with strong business expertise, especially regarding any non-utility affiliates.

While the CEOs we interviewed expressed confidence in the governance arrangements in place at their LDCs, several indicated that their LDCs have opted to review those arrangements in anticipation of potential PULSE panel recommendations. In some cases that review extends beyond an evaluation of board composition and skills to include an analysis of holding company structures and subsidiary arrangements. Several CEOs described their governance review as work that needed to be done, with the anticipated PULSE recommendations the impetus to get on with this work.

> **"We're already sort of following best practices, but there's (sic) still opportunities to advance that. We do get a lot of value from having municipal politicians involved and understanding our business. But it would be nice to have a really skills-based focus for the subsidiaries, and keep the municipal government side more to the strategic Holdco level."**

CEOs are also focussed on the implications of the municipal elections later this year. A new council term will bring new members, many of whom will have had no previous exposure to the LDC, at a point when significant capital and governance issues are likely to come before them. Several CEOs described plans to engage their municipal shareholders considerably more often than they have in the past, both to build that understanding and to establish the relationship before difficult questions arise.

"Right now council really only hears from me one time a year. The expectation for next year with the new council is way more frequent engagement."



StrategyCorp's Perspective

Acting as a visible community institution and an economic development partner requires capabilities and skillsets that are new to many LDCs, including key account management with major commercial and industrial customers, coordination with municipal economic development / planning staff, community marketing strategies, and similar functions.

In our own work in the sector, we have seen that municipal expectations about support from the LDC regarding economic development can arise before the LDC has built the internal capacity and expertise needed to meet those expectations. Alignment between the municipality and LDC regarding economic development requires a dialogue not merely about what the LDC is being asked to do, but also about what resources are needed to meet municipal expectations.

For utilities examining their board composition and corporate structure, the more prudent course at this stage may be to prepare rather than pursue significant change. Governance and ownership models were squarely within the PULSE Panel's mandate, and its recommendations may address board composition, the role of municipal representation, and the structures within which utilities operate. Committing to a particular model now risks having to revisit it, and anything ultimately mandated will take precedence over arrangements a utility has arrived at on its own. What utilities can usefully do in the interim is understand their current arrangements well enough to assess a recommendation against them quickly, and maintain enough dialogue with their shareholders so that a governance conversation can evolve promptly, rather than from a standing start.

CHAPTER

03

Pursuing Regulated and Unregulated Growth and Scale



"The LDC right now is not focused on amalgamation and mergers, because we have so much organic growth."

Growth and scale mean something different to each LDC, shaped by local socio-economic trends, the risk appetite of its shareholder(s), and the capital available for investment. The CEOs with whom we spoke described a sector that is actively weighing optimal approaches to driving growth and scale.

3.1 CONSOLIDATION IS BEING WEIGHED CAREFULLY, AND MOSTLY ON FINANCIAL TERMS

Many of the CEOs with whom we spoke had assessed the pros and cons of consolidation but none of them had concluded that consolidation was an appropriate option for their LDC or shareholder at this time. The reasons for that conclusion depended very much on the particular circumstances of the LDC.

For some utilities with successful affiliate businesses, there is not much appetite for pursuing growth on the regulated side of the business through consolidation. For them, buying/merging with another LDC is expensive, and the expected return on such an investment is less than the return they anticipate achieving on an equivalent investment in unregulated businesses.

"You've got to pay such a premium for regulated assets. To make up for the premium you've paid over rate base, you've got to have material cost reductions, and those cost reductions come from shutting down operations and moving people out. At the end of the day you end up with about a nine per cent return. We do better investing in affiliate businesses that give us twenty-five or thirty. That's why we're not actively going after acquiring or merging."

For utilities in high-growth service territories, the reasons for not pursuing consolidation are somewhat different. Organic growth is already consuming available capital and management attention, and an acquisition or merger would add integration risk without addressing anything the utility currently needs.

Among CEOs who are more open to consolidation, one CEO shared a perspective that is particularly noteworthy because it inverts the question most LDCs ask themselves. Rather than beginning with the question of whether the utility wishes to remain independent, it begins with a question about why a potential acquiror or merger partner would want to buy or merge with the LDC.

> **"I'm not focused on why I want to sell. I'm focused on what they want to buy. What's the value to them that we're missing on our side, that we haven't captured internally?"**

This perspective helps identify not only those features that may make the utility attractive to a prospective acquiror but also those aspects of the business that warrant improvement to drive growth and greater scale.

3.2 FOR MANY LDCS, SIGNIFICANT GROWTH IS HAPPENING ORGANICALLY

While consolidation is currently attracting a lot of policy attention, several CEOs described their most significant growth opportunities as occurring within the LDC's existing service area. Residential development, commercial expansion, institutional projects, and proposed data centres are adding load and customers at a pace that is reshaping what these utilities need to build and how they need to be organized.

> **"It's typically not discussed at length, but the growth we're expecting to experience as a company is largely occurring within the core LDC. The amount of capital growth over the next decade almost doubles the size of the company."**

What counts as significant growth varies considerably with the size of the LDC. Development that a large distributor would absorb without difficulty can represent a step change in scale and complexity for a smaller one.

> **"Before I started there were no new subdivisions in our service territory. Now we have two going on at the same time, which requires stations being built. For a large utility it wouldn't be considered big growth, but relative to where we are, it's big."**

Growth is not without cost. Legacy infrastructure that was adequate for a stable customer base requires upgrading, new stations and feeders must be built, and the investment is generally required well in advance of the revenue that will eventually support it. The capital pressures described in Section 1 are therefore felt most acutely by the utilities experiencing the strongest growth.



3.3. – SOME LDCs SEE GROWTH OPPORTUNITY IN NEW REGULATED ROLES

Not every utility is looking to expand the scope of what it does, and several CEOs were clear that their priority is the distribution business they already operate. However, among those CEOs with the appetite and the capability, there is growing interest in regulated activities adjacent to the traditional regulated business, including owning and operating their own transformer stations, taking on transmission-connected customers, and developing distribution system operator (DSO) capabilities.

The rationale is that these are opportunities that align well with an LDC's existing expertise. Several CEOs also framed these opportunities as a way to have greater influence over outcomes that matter to their communities, particularly where local capacity constraints affect the municipality's ability to attract investment. Several CEOs expressed the view that an LDC with more direct local engagement might be positioned to move on a local transmission project sooner than the traditional or "incumbent" transmitter.

The DSO opportunity has advanced since interviews were conducted. In September 2026, the OEB publicly published its report to the Minister of Energy and Mines, titled, *A Roadmap for Advancing Distribution System Operator (DSO) Capabilities in Ontario.* The Roadmap sets out a staged, evidence-based path toward a DSO regulatory framework intended to improve the integration of distributed energy resources, support timely investment, safeguard consumer interests, and contribute to economic growth and innovation in the sector.

Publication of the Roadmap answers part of what CEOs told us was missing. The path forward is now more visible, and utilities weighing whether to build DSO capability have a clearer sense of what the OEB envisions and in what sequence. What it also makes clear is the extent of the work that lies ahead, across the workstreams the Roadmap sets out. LDCs with an interest in this space will need to be engaged in that work and equipped to engage in it.

> **"LDCs are a little bit more open to taking on transmission connections as a way to drive economic development and put a bit more control in our hands, as opposed to having to wait for the transmitter, who is overloaded. How do we take a bit more of that into our own hands?"**



3.4 AFFILIATE STRATEGY IS BECOMING MORE DISCIPLINED

The inaugural edition found the sector debating the value of pursuing affiliate businesses and concluded that shareholder risk appetite was the deciding factor. Some municipalities encouraged expansion into new business lines, while others preferred their utility to concentrate on the regulated business and return steady dividends. These different perspectives remain and are the starting point for any discussion of affiliates.

The clearest development amongst the survey group is a firmer view on scope related to affiliate growth. CEOs described affiliates as most valuable when they extend the utility's existing capabilities rather than diversify away from them.



"I think about affiliates being able to go beyond what the utility does, but as something that strengthens the utility relationship, rather than, we're going to mine Bitcoin or open a chain of coffee shops."

A second development is the use of the regulated business as a benchmark for evaluating unregulated opportunities. Because the return on regulated assets is known and relatively stable, it establishes a reference point against which the additional risk of an unregulated venture can be assessed. Doing so provides LDCs with a useful and clear threshold for determining what is worth pursuing.

"The utility provides the base case. We know if we put in assets there is a regulated rate of return, fairly stable. That helps determine the risk premium you need on the affiliate side. Are you going to do work for a 10% return that isn't guaranteed, versus a 9% return that is?"

Applying that test, LDCs are following several affiliate growth paths. The first is establishing or buying affiliates that conduct work the utility would have undertaken in any event. This keeps margin within the corporate family, builds internal capability, and carries limited market risk because the demand is already there.

"As we continue to grow organically, we're bringing in things we've been contracting out. Locates, vegetation management, traffic control – all the things we're paying others to do. We're looking at keeping that money in-house."

The second is shared services, such as billing or customer service, delivered across a broader regional footprint, where the utility already has the capability and additional volume improves the economics. This path has the further advantage of strengthening relationships with neighbouring utilities, which may matter for broader strategic reasons as the sector evolves.

The third, pursued by a growing number of LDCs, is more ambitious. These organizations are acquiring established businesses in adjacent sectors such as construction, infrastructure services, and engineering, where the utility understands the work and the customer base, but the business operates on fully commercial terms.

StrategyCorp's Perspective

It's clear that there is no single dimension to pursuing growth in the LDC sector. The utilities we spoke with are pursuing quite different paths, and the useful question for any individual LDC is which of them fits its circumstances rather than which is best in the abstract.

For utilities experiencing significant organic growth of the core LDC, the more pressing risk is that success outpaces the organization. Growth of this kind arrives with capital requirements ahead of revenue, and with demands on system planning, engineering, and customer service capability that a smaller utility may not have built. These utilities are in a strong position on any long-term view, but the near-term strain is real and it is worth raising with the shareholder and regulator early rather than managing quietly. As mentioned earlier in this paper, the sector is hopeful that the PULSE Panel will adequately pay heed to the access to capital issue, especially for LDCs with rapidly growing service territories.

The interest several LDCs are showing in taking on new regulated roles is a welcome development. These utilities are proposing to apply expertise they already possess, to problems their communities are facing, and to take on responsibility rather than wait for it to be exercised elsewhere. The publication of the OEB's DSO Roadmap gives these utilities something concrete to work with. However, it is a roadmap rather than a framework, and a great deal of work remains to be done through the workstreams it sets out. The key question for the sector is therefore how LDCs can best be engaged in that process. Several have already run pilots and demonstration projects, and that practical experience of what works, what it costs, and where the difficulties lie is exactly the evidence the workstreams will require. Ensuring that these utilities are properly represented in the process is where the sector's attention should now be directed.

StrategyCorp has also witnessed the expansion of affiliates portfolios among LDCs across the province over the past several years. Our work in the sector points to several frequently underestimated conditions that determine whether affiliate ventures actually succeed. First, non-regulated businesses often require sustained investment before reaching profitability, which is difficult where capital is already constrained and shareholders expect dividends throughout. Second, they require competencies and an operating mindset that differ from those of a regulated utility, and utilities must decide whether to build those capabilities or bring them in. Third, compliance with the Affiliate Relationships Code requires deliberate internal guardrails as activity expands. And fourth, because performance in the unregulated business can affect the credit profile of the regulated utility, affiliate decisions cannot sensibly be made in isolation from the regulated business plan. Paying heed to each of these considerations may help LDCs pursue affiliate growth more successfully.

CHAPTER

04

The LDC-OEB Relationship



"I've been in the industry a while, so I have a wait-and-see attitude when it comes to the regulator. Every couple of years there's a new effort, and it takes time to know what has come of it."

The relationship between LDCs and the OEB is critically important. The CEOs with whom we spoke described a relationship that is improving but that still presented areas where work is required. They emphasised that there is an opportunity for both LDCs and the OEB to contribute to a more productive relationship.

4.1 NEW LEADERSHIP AND A BROADER MANDATE THAT IS STILL FORMING

Two things changed at the OEB since the first edition of this survey was published. The past year has seen a change in the senior leadership of the OEB and the expansion of its statutory mandate to include consideration of economic growth. We asked CEOs what difference, if any, they had observed since these changes. Their responses were mixed and depended very much on the area of the OEB's work they were addressing.

On day-to-day dealings with the OEB, the reports were generally positive. The last survey recorded frustration with an approach to compliance that CEOs considered disproportionate and "overly punitive". Several CEOs expressed the view that the OEB's approach to compliance and enforcement was improving.

On the OEB's now broader mandate, CEOs expressed continuing reservations about the Board's approach. The rate application process is where LDCs engage with the Board's priorities most directly, and it is where they have been looking for evidence that economic growth now sits alongside affordability. Most reported that they have not yet seen it.

> **"To me, the regulator is still the regulator of old. Affordability has been beaten into them so hard that they're not thinking about the opportunity that comes from investment, or the direction the government has provided them on spurring economic growth."**

Taken together, these observations led most CEOs to the same conclusion: it is too early to tell. Several noted that they have been through earlier periods of change in the sector and would rather judge the current regulatory regime on the decisions that emerge from it over the next few rate application cycles.

"I don't think that's an issue anymore. There were some decisions made regarding an approach that used to be very punitive. I have not seen it since – yet. The keyword is yet."

4.2 THE COST OF SERVICE PROCESS REMAINS THE MAIN FRUSTRATION

The subject raised most consistently across the interviews and our work with LDCs relates to the cost of service process: its expense, the time it consumes, and the relationship between the volume of evidence required and the way applications are ultimately resolved.

CEOs described preparing applications running to many hundreds of pages, engaging external consultants and counsel, and committing senior management for extended periods. Where matters are ultimately settled, several questioned whether the same outcome could have been reached through a less resource-intensive process. Because these costs are recovered from ratepayers, CEOs saw an opportunity to advance affordability objectives through process efficiency itself.

> **"You put a thousand-page report together, you prepare all this time, it costs hundreds of thousands of dollars paid by ratepayers, and then much of it comes down to what you received last time. It makes you wonder whether all of that effort is proportionate to how the matter is ultimately resolved."**

For faster-growing utilities the burden compounds, because growth requires more frequent rebasing than the standard rate cycle contemplates. A utility whose capital program and customer base are expanding quickly cannot wait the full period to recover what it is spending, so returns to the process again while the previous application is still fresh in the memory of those working on it.

"We're filing a cost of service every two years. We're not waiting five years. That's going to be problematic for everybody, including the regulator."



4.3 SMALLER AND MID-SIZED UTILITIES FEEL LESS WELL REPRESENTED

Several CEOs expressed a wish to see the perspectives of smaller and mid-sized utilities reflected more fully in the OEB's work, noting that their circumstances differ in material ways from those of the sector's largest participants.

It was noted that there is a gap between direction as it is set at the provincial and regulatory level, and the realities of applying it in municipalities serviced by small and mid-sized LDCs. Several CEOs remarked that they would welcome more deliberate effort to draw on "on-the-ground" expertise into the OEB's thinking and believe that the resulting policy and regulatory landscape would be better for it.

> **"I'd like to see a little more intent in terms of working with the small and medium-sized utilities, to get more input on what our customers really want and need. There's always a missing piece between what's coming down from provincial direction and what we're actually observing in our community."**

CEOs also expressed a hope that efficiency work undertaken to improve the operational effectiveness of their LDCs will be more fully recognized by the regulator. CEOs described shared services arrangements, joint procurement, and operational improvements undertaken on their own initiative, and expressed a view that the OEB has not yet acknowledged these improvements.

> **"There's an awful lot of scrutiny around the idea that LDCs of our size are not trying to be efficient. From my own experience and from the partnerships we've done with others, I really feel like we're not getting the credit we deserve."**

This thinking extends to how smaller and mid-sized utilities are compared against the rest of the sector. CEOs of these organizations questioned the fairness of being measured against utilities with entirely different profiles, noting that a smaller LDC in a growth corridor may be delivering a capital program comparable to that of a much larger one, while carrying the same regulatory and reporting obligations across a narrower revenue base. Others operate older assets, serve dispersed or slower-growing communities, or work with funding arrangements inherited long ago. CEOs felt that the performance measures currently applied, fail to capture this nuance, and that smaller utilities can appear inefficient on paper for reasons that have little to do with how well they are run.

"I think there needs to be a better understanding across the sector about how hard it is to compare utilities to each other. There's this perception that we can all be measured on OM&A per customer, but it's not true. Everyone's funded differently. We're all operating in different environments."



4.4 COMPLIANCE OBLIGATIONS CONTINUE TO ACCUMULATE

CEOs also described a steady accumulation of regulatory and compliance obligations. These include climate vulnerability assessments and system hardening under the Vulnerability Assessment and System Hardening (VASH) framework, cyber security expectations, procurement requirements, emergency response and business continuity planning, and expanded reporting.

Several CEOs stated that the underlying objectives are ones the sector shares, particularly on resilience and cyber security, where the risks are real and increasing. However, CEOs noted that the burden of these well intended obligations is cumulative and falls unevenly. Requirements that a larger utility may already satisfy through existing practice can represent entirely new work for a smaller one which must build the capability from the ground up.

> **"The OEB has system hardening and more and more requirements. For large LDCs, these requirements are usually things they are already doing. For a small LDC like ours, it's essentially net new. It's not a deal breaker for us, but it's ratcheting up year over year and we're just trying to keep up."**

4.5 REGULATORY EXPERTISE IS DIFFICULT TO FIND AND DEVELOP

While not necessarily a concern of the regulator, several conversations highlighted the shortage of in-house regulatory expertise available to many LDCs, especially smaller ones. Through our own work in the sector, we are keenly aware that regulatory work is specialized, and that the knowledge required is not readily transferable from other industries or acquired quickly. The existing cohort of practitioners is limited, and a significant number of these practitioners are approaching retirement. LDCs are not only competing among themselves, but are also competing with consultancies and law firms able to offer different compensation packages and career paths.

"It's one of the areas that really concerns me. How many true experts there are on the regulatory side? It's so unique to this industry. It's very difficult to get up to speed quickly if you are hired from outside the sector."

Some utilities are addressing this issue collaboratively. As regulatory workload is uneven, following the rhythm of application cycles rather than a steady baseline, some small and mid-sized LDCs recognized that they do not necessarily require a full-time senior resource year-round, but several together might.

"We had a partnership with an industry peer where we picked up a really good regulatory resource and shared them, based on the peaks and valleys of when you need that expertise. I think we will continue to use this approach going forward, as it is the most efficient and cost-effective."

StrategyCorp's Perspective

Two observations about the LDC sector's current relationship with the OEB.

The first is that patience is warranted. A year is a short period in which to assess an institution of this size and complexity, particularly one carrying a substantial concurrent workload across several major consultations. Bill 40 and Ministerial direction have broadened the OEB's traditional mandate, and a change of that kind necessarily takes time to become visible across rate decisions and other regulatory proceedings. It is also worth acknowledging what has already improved which is that several CEOs described a more constructive approach to compliance than the one recorded in last year's survey.

The second is that the sector would benefit from clearer guidance on how the OEB intends to reflect the economic growth objective in its policies and decisions. This is the single most useful thing that could be provided in the near term. Guidance issued upfront would allow LDCs to prepare their applications accordingly, rather than inferring the OEB's approach from individual outcomes after the fact. It would also support consistency across proceedings heard by different panels of Commissioners, which matters a great deal to utilities planning multi-year capital programs against an evolving policy backdrop.

The value of regulatory clarity extends beyond the utilities themselves. When investors assess a regulated asset, they consider not only the quality of the asset but the quality of the regulatory framework surrounding it, and whether that framework is coherent, transparent, and predictable. The OEB has historically been well regarded by investors and rating agencies on precisely these grounds, and that reputation is an asset to the entire sector. At a moment when LDCs are seeking to attract capital on better terms, and when the provincial government is looking to the sector to support economic growth, there is a shared interest in ensuring that confidence is preserved as the mandate evolves.

Encouragingly, much of what the sector is looking for aligns with directions the OEB has already set out in its own Business Plan, including its commitments to regulatory frameworks that support prudent investment and to reducing administrative burden. The opportunity is less about new direction than about continuing to advance what is already underway, and about making the OEB's thinking visible to utilities early enough that they can respond to it.

CHAPTER

05

The Internal Workings of the LDC

“We’re effectively a farm system for larger utilities in the region. We lost four or five line technicians over two or three years.”

Last year’s survey focused almost entirely on external issues facing the sector. Our own advisory work has persuaded us that issues relating to the internal operations and capacity of the LDC deserve equal attention. Those internal issues are important because they significantly impact whether and how an LDC can effectively respond to the changes in the external environment discussed in the other sections of this report.

5.1 THE RECRUITMENT OF EXPERIENCED PERSONNEL IS INCREASINGLY DIFFICULT

CEOs at utilities of every size reported that the sector’s apprenticeship pipeline works well and their utilities have reasonable success attracting candidates early in their careers. The difficulty arises with respect to the recruitment for more senior positions: at the level of the experienced journeyperson, the senior engineer, and the specialist in regulatory affairs, asset management, or system planning. These are the more senior roles that require very specific skillsets, expertise, and supervisory competencies. They are the hardest positions to fill when a seasoned employee leaves.

> **“We can get green employees, we can certainly get apprentices, people early in their career. But to get really experienced people is very, very difficult.”**

Some CEOs, especially those in smaller utilities, attributed this difficulty in part to uncertainty within the sector itself. Candidates weighing a move are conscious of a sector in flux, and a stable employer is a meaningful consideration when they feel exposed to the risk of losing their job if their utility is sold or merged with another LDC.

“Folks don’t want to leave a stable utility for one that might be consolidated or bought up.”

There is also a competitive dynamic within the broader energy sector whereby LDCs are competing with large generators, transmitters, and neighbouring distributors for the same experienced staff. Some of these larger organizations can offer higher compensation, broader career progression, and larger project portfolios. Several CEOs were candid that this competition creates an ongoing and serious disadvantage for smaller utilities where the departure of even a few staff can represent a loss of key in-house expertise.



5.2 THE PRESSURE TO DELIVER IS LEADING TO BURNOUT

The workforce challenge described above is compounded by the heightened expectations for utility employees. Many LDCs – particularly those who are experiencing significant growth and implementing major capital programs – have absorbed a substantial increase in workload over recent years without a corresponding increase in staff, and the effects are increasingly evident. Several CEOs described this as something they are actively concerned about.

> **"We're a small and lean team, but we accomplish a lot of big things. That's going to take its toll on people. We're seeing a lot more mental health concerns, more burnout, more absenteeism. We're certainly concerned about that."**

This is among the most consistent workforce trends we encounter in our advisory work. For several utilities, capital programs have grown substantially over recent years, frequently alongside major system implementations, rate applications, and expanded compliance obligations, while headcount has remained broadly flat. The additional work has been absorbed by existing staff, particularly high performers at the management level who are able to "get the job done when called upon."

For these LDCs, delivery of major projects and milestones have generally held up, which is a credit to the people involved but also part of the difficulty. Because the work continues to get done, the strain is not always visible in reporting, and organizations can operate for extended periods without recognizing how much depends on the capacity of a small number of individuals.

5.3 THE MIDDLE MANAGEMENT LAYER IS CRITICAL AND REQUIRES THE MOST DEVELOPMENT

The middle management layer between the executive team and the front line is key to the successful delivery of an LDC's responsibilities and objectives. Capital programs, system implementations, rate applications, and process improvements all depend on managers and supervisors to plan the work, sequence and prioritize that work, and lead their teams to complete it. As the demands on utilities have grown, this is the management layer that has absorbed much of the increase in "net new work".

Given these observations, it is not surprising that several CEOs told us that this is the group with the greatest need for development. Managers in the utility sector are typically promoted from technical roles on the strength of strong technical performance. They are then asked to take on a very different set of responsibilities, including setting direction, managing performance, developing others, and leading through change. Several CEOs expressed the view that until recently, the sector has insufficiently invested in management and leadership skills development and the strain is showing.

> **"If you can't find the people in the market you're looking to recruit, then you have to promote. That's something you accept, that you have to promote people who are a little bit greener on the leadership and management piece, and try to train them over time."**

Encouragingly, executive teams and HR functions across the sector are increasingly focused on the delivery of the management and leadership training and development needed at this level of their organizations. In our own work, we have seen a marked increase in LDCs developing tailored leadership programming for their director and manager groups. Utilities are also moving to define management expectations more explicitly, distinguishing technical leadership from the management and leadership of people so that recruitment, promotion, and development can be assessed against a common set of criteria.

5.4 ARTIFICIAL INTELLIGENCE HAS MOVED FROM THE MARGINS TO THE CENTRE

Every CEO we spoke with reported some use of artificial intelligence (AI), especially generative tools. Adoption has started with lower-risk applications where the consequences of error are limited and easily checked and has expanded from there as confidence has grown. The efficiencies described were practical rather than transformative, and the cost of entry was notably low relative to other technology investments.

> **"My technical staff are using Copilot to help with crunching GIS data. I myself can ask it generalized HR questions, scenarios. It's almost like having more staff on your side for a thirty-dollar subscription price."**

Sophisticated, sector-specific applications are beginning to appear alongside general-purpose tools, particularly in the areas of regulatory affairs, asset management, outage response, and payroll. At the farther end of the range, a small number of LDCs have moved to agentic deployment across multiple functions.

> **"AI is central to our strategy. We employ agents in engineering and operations, we have agents in regulatory, and we're about to launch agents in customer service."**

Several CEOs of smaller utilities identified a particular benefit that AI presents to their utilities. Where an LDC lacks the scale to develop certain capabilities internally, AI tools that raise performance toward the sector average can represent meaningful progress at modest cost.

"AI is not necessarily the best at creating new things, but it's good to bring you up to the mean. And as a small utility, being brought up to the mean with the regulator is pretty good. For us it's a small cost to get there, pretty quickly."

Many CEOs also noted that these benefits are matched by critical risks. Security was the risk raised most often, and particularly the pace at which the technology is being adopted by those seeking to misuse it. LDCs hold customer data, operate critical infrastructure, and process payments, which make them attractive targets, and the tools available to attackers have improved considerably.

> **"If somebody gets a call from my phone number, and it sounds like me, do they start doing things because they think it's me?"**

CEOs and other senior leaders at LDCs are also aware that there is a critical workforce dimension to AI adoption. Rapid adoption creates anxiety, particularly in front-line and unionized environments where staff may reasonably interpret automation as a threat to their positions. The utilities that have progressed furthest with respect to the adoption of AI have usually chosen to address this concern directly and early by assuring employees that AI would not lead to layoffs. Where this approach was taken, the response was described as "active enthusiasm" rather than "reluctant compliance".

"Our success is the result of giving assurances to staff that we won't be laying people off because of AI, in exchange for them being open to retraining. I was transparent – nobody's going to lose their job because of AI, but we might hire less in certain roles, and if we eliminate a role, you have to be open to being placed somewhere else."

Asked what would most help the sector adopt AI effectively, CEOs pointed to the development of common platforms and shared procurement.

> **"Adoption would be a lot better if more utilities used the same or similar products, rather than everybody trying to build their own. It's almost like the smart meter rollout. If there was some sort of provincial AI procurement, or working together."**

Several noted that there is a compelling case for developing a common platform in the near term. Some utilities are facing the end-of-life replacement of customer information and enterprise management systems, and the new systems will most likely come with AI capabilities embedded. Decisions taken in the near term will therefore determine platform choices for a considerable period, and some peer groups have begun discussing joint vendor engagement on that basis.

Alongside this interest in coordination, several CEOs counselled caution, drawing on experience of previous technology cycles in which anticipated transformation arrived more slowly and in different form than expected.

> **"People thought AI would change the world in three months. Maybe it's going to change the world in three years, or five, or seven. So, it's about road-mapping it properly, knowing where we want to make our investments."**



StrategyCorp's Perspective

The workforce and capability pressures described in this section appear at utilities of every size and growth profile, and they matter well beyond the organizations experiencing them. The provincial government has asked the sector to enable economic growth, connect new load quickly, and modernize the distribution system. Every one of those outcomes depends on LDCs having the people to deliver them. Resolving these constraints is therefore not solely a matter for individual utilities. Both the government and the OEB have a direct interest in seeing them addressed.

On recruitment, there is a limit to what any individual LDC can do about a competitive market. What utilities can influence is how well they develop the people they already have, and how clearly they articulate the future path of their LDC and what makes working at their LDC worthwhile. In our experience, LDCs tend to leave these things to inference. A candidate weighing a move is making a judgment about the organization's future, and utilities are better served by answering that question directly.

On building future LDC leaders, we would encourage the sector to continue investing in the management layer, and to consider doing so collectively. The capability gaps here are common across utilities, and the training programs and accompanying content required are not utility-specific. Programs delivered jointly with neighbouring utilities or through sector associations would reduce cost, broaden the peer group, and build relationships across organizations that may prove useful for other reasons as the sector evolves.

On AI, the CEOs we spoke with have already identified the opportunity. They asked not for more capability within their own organizations, but for common platforms and shared procurement across the sector. That instinct is well founded, because the questions each utility is currently working through on its own are largely the same questions: which vendors to trust, what data protection terms to require, what governance framework to apply, and what to tell the board about risk? Answering them once, collectively, would produce better results than 50+ utilities answering them separately.

Common platforms will only take the sector so far, however, because the harder part of AI adoption is not procurement but preparing the workforce for it. The utilities furthest along succeeded because they addressed staff concerns before deploying any new technology. Being clear about what the technology will and will not be used for, what it means for existing roles, and how staff will be supported through the transition is what determines whether people engage with these tools or work around them. Utilities that treat AI purely as a procurement decision are likely to find adoption slower and more contested than they expected.

CHAPTER

06

Where the LDC Sector Goes from Here



The annual LDC survey was established for the purpose of giving Ontario LDC CEOs the opportunity to share their views regarding key issues in the sector. During this second survey, each of the CEOs interviewed shared their thoughtful and candid reflections on a range of key issues facing the sector. We conclude the survey with our perspective regarding three issues discussed with the CEOs: how to proceed in anticipation of new measures resulting from the PULSE panel, the importance of securing alignment between the LDC and its municipal shareholder regarding growth, and the opportunity to address many of the key operational issues facing the sector (such as access to regulatory expertise, leadership development, and the procurement and design of AI tools) through collective action.

1. On PULSE, LDCs should separate the decisions that genuinely depend on PULSE from the much larger set of decisions that do not. Almost every CEO we spoke with described holding something back until the PULSE recommendations are released, and that caution is understandable. Because the Panel's mandate covers ownership models, governance, and financing gaps, its conclusions could bear directly on questions of ownership structure, the timing of any transaction, and the financing tools that may become available to the sector. Deferring initiatives related to those particular decisions is a reasonable position to take. However, a great deal remains within a utility's own control today. As this report describes, CEOs are already advancing work that does not depend on the Panel's conclusions, whether in strengthening the shareholder relationship, building the capabilities their communities and their regulator now expect of them, or preparing their organizations for what comes next in the area of AI. That work will be valuable regardless of what the recommendations say.

The practical step we would suggest is a straightforward one. Utilities should work through, with their boards, which decisions genuinely require the Panel's recommendations before they can be made, and which do not. The first list is usually shorter than expected. Making that distinction explicit protects against a broader hesitancy taking hold, in which work that could have proceeded is quietly put off alongside the decisions that genuinely had to wait.

LDC CEOs should also plan and prepare for important discussions with their municipal owner or owners after the municipal elections and the anticipated release of the PULSE recommendations. Those discussions should be a segue into a broader discussion about the future of the utility and the ways in which it can meet the changing needs of the communities it serves.

2. On growth and scale, LDCs should be deliberate about which path they are on, and secure shareholder alignment. This report describes utilities pursuing quite different directions. Some are weighing consolidation, some are absorbing significant organic growth within their existing service territories, and some are building affiliate portfolios of real scale. These are not competing philosophies so much as different responses to different circumstances, and each carries a distinct risk profile, call on capital, and implication for dividends.

What they share is a requirement for shareholder understanding that some utilities have not yet established. A council that has not been engaged on the trade-offs between capital investment, dividends, and growth will encounter them for the first time when a decision is already in front of it, which is the least favourable moment for that conversation.

The new council term is therefore worth planning for deliberately. Some incoming members will have had no previous exposure to the utility and will form their impressions of it early. That period is the opportunity to establish the basics – what the utility does, its vision for the future, why its capital program is growing, and what the sector is currently facing – and to work through the more fundamental question of "what is the core purpose of the LDC?" A council that has considered that question in advance is better placed to weigh a specific proposal when it arrives, and the utility is better placed to bring one forward.

3. On collaboration, the sector should address its shared challenges together. Some of the main capability gaps identified in this report – regulatory expertise, leadership development, and AI governance and procurement – are for the most part being addressed separately across the province. None of these is an area where a utility gains much by going it alone. There is limited advantage to be had in each LDC drafting its own AI vendor terms or developing its own management training curriculum, when the underlying requirements are so similar across the sector.

Encouragingly, the sector has already begun to demonstrate what is possible here. The shared and fractional regulatory arrangements described in Section 4 emerged independently in several places, without prompting from policy or regulation, because the utilities involved recognized that their needs were both common and intermittent. That same logic applies to leadership programming and to AI procurement, where the timing is more pressing given the number of utilities approaching end-of-life replacement of core systems.

Discussion of shared services in Ontario has historically focused on reducing back-office costs and has advanced slowly because the savings were modest and the integration effort real. The more valuable version of that conversation concerns capability an individual utility cannot build on its own. The sector has the association infrastructure to pursue this and would benefit from approaching it in those terms.

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