The journey forward: The path to non-regulated investment

In a regulated electricity sector like Ontario's, it can be challenging for Local Distribution Companies (LDCs) to achieve their strategic objectives by focusing on energy distribution alone. Not only do Ontario Energy Board requirements limit LDCs' returns, but they also constrain growth—leaving much of LDCs' resources under-utilized.

To resolve these issues, many municipalities are looking beyond regulated forms of revenue generation toward non-regulated investment opportunities. These opportunities—which can include anything from the distribution of fibre and broadband to renewable energy storage—make sense on a number of different levels.

For one, LDCs already have the foundational resources, infrastructure and expertise to explore other business-to-consumer opportunities. So, in addition to earning a 10 percent return on regulated business revenue streams, LDCs are well-positioned to earn an additional 12 to 15 percent simply by leveraging their energy and power distribution expertise. Second, with the Ontario government paying closer attention to the services provided by various municipalities—particularly in terms of the duplication of efforts—expanding the role of LDCs is one way to maximize the resources at hand and streamline existing services.

For this to happen, however, municipalities must create a clear roadmap forward and identify the non-regulated opportunities that make the most sense for them.

A shift in mindset

Non-regulated investment can help LDCs mitigate industry disruption through new products and services; better use excess resources; protect, maintain or grow their dividend streams; diversify their investment portfolios; and even make their communities stronger, either through additional services or by creating new jobs. To realize these benefits, however, a robust non-regulated investment strategy is critical.

Because no two municipalities are alike, to craft such a strategy, municipalities must first establish their strategic rationale for exploring non-regulated LDC opportunities—and clearly outline their most pressing goals. These will depend largely on a municipality's geography, core competencies, shareholders' risk tolerance and access to capital.

The point of this preliminary phase is to develop a common understanding of the municipality's desired approach to non-regulated growth, prepare the organization accordingly and pave the way toward a seamless execution.

Plan your approach

A non-regulated growth strategy isn't a short-term endeavour. If an LDC is to be agile enough to seize opportunities as they become available, it must take the time to research every area of non-regulated investment and incorporate its findings into its strategy.

In this context, you want to consider:

Financial capacity. Non-regulated investments often require capital, so it's important to develop a clear and realistic financial plan for your non-regulated growth endeavours.

Screening criteria. In all likelihood, once you start looking at non-regulated investment opportunities, you'll encounter more than you know what to do with. That's why it's important to confirm how opportunities will be evaluated from a financial, risk and qualitative perspective ahead of time.

Existing resources. In many cases, non-regulated investment opportunities will hinge on your existing financial and human resources. Taking the time upfront to assess what types of resources you have—and what you may need—can help narrow your strategic focus.

Timing. Non-regulated financial results don't materialize overnight. In some cases, it can take months and potentially even years. As such, you want everyone—including boards, shareholders and constituents—to have a realistic view of timelines before the process begins.

Assess your options

With a clear plan in place, the next step is to research the non-regulated opportunities available in your specific geographic region and assess your options based on your predetermined criteria.

Depending on your municipality's goals and objectives, you may decide to pursue new opportunities in the areas of power generation (e.g. hydro, solar or biogas); engineering, procurement and construction (EPC) contracting; water cycle management; conservation demand management; energy storage; fibre/broadband; or something else entirely. To this end, you may choose to acquire an existing company—or launch a new one.

Understandably, this journey will be anything but straightforward—which is why it's important to regularly refer to your strategic plan, and only seize opportunities that align with it. For instance, if you've decided that one of your top priorities is to leverage existing LDC resources to address other utility needs, your first step is to determine which utilities could benefit most from such an arrangement. In many jurisdictions, water management tops this list.

Due to aging water assets across the water cycle—including water treatment and distribution, waste water treatment and distribution, and storm water collection and restoration—many municipalities expect to face hefty replacement and refurbishment costs in the not-too-distant future. These types of large-scale infrastructure investments are well-suited to LDCs—not only because they have the asset management knowledge needed to efficiently tackle many of these challenges, but also because they can leverage their more formal utility model to help municipalities free up departmental resources to focus on other services, like transit or roads.

A bright future

Non-regulated investment offers plenty of opportunities for municipalities across Ontario. Yet, to make them work requires both a shift in thinking and considerable forethought. By clearly defining your goals and objectives, conducting the necessary research to create sound non-regulated investment strategies and systematically seizing the opportunities that best align with regional needs, municipalities can dramatically increase the likelihood of a successful outcome—and extract more value from their LDCs, both today and in the future.

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