Ivey Business School
WESTERN UNIVERSITY · CANADA
Energy Policy and Management Centre

Policy Brief
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Improving Governance and Strategy in Ontario's LDC Sector

EXECUTIVE SUMMARY

- Boards of directors play a central role in the governance of local electricity distribution companies (LDCs), monitoring organizational performance and risk, and guiding long-term strategy. Boards with the appropriate mix of skills and experience among directors can help LDCs adapt their strategies to the current challenges arising from multiple technological disruptions that are undermining the sustainability of traditional LDC models.
- This report documents the results from a new survey of 384 directors of LDCs in Ontario that profiles directors' professional careers and views about organizational financial priorities, diversification, and mergers and acquisitions. Significant differences are identified in careers and views between directors who are independent and those who are local councillors or mayors, who account for approximately one quarter of all directors, and also between directors of small and large LDCs.
- On average, councillor directors appeared to prefer more aggressive LDC growth strategies, either through broader diversification or through acquisition of other LDCs, than did independent directors, though they prioritized dividend payments to municipal shareholders over investment in regulated or unregulated businesses. On average, directors of smaller LDCs tended to favour the organizational status quo as compared to directors of larger LDCs, who preferred merger or acquisition and broader diversification.
- Municipalities would benefit from aligning LDC governance with OECD recommendations by appointing the most qualified directors possible to guide LDCs through the forthcoming period of transition, and by increasing the number of independent directors.

INTRODUCTION

This Policy Brief assesses the composition of boards of directors—a central element of corporate governance—of local electricity distribution companies (LDCs) in Ontario, and examines how composition can shape LDC strategy and performance. The Ontario Energy Board (OEB) has recently begun to study governance structures and practices of LDCs, noting that effective governance is an important factor in the development of organizational strategy and long-term performance. Implementing governance best practices is in fact becoming increasingly urgent for LDCs: a wave of technological disruptions in the electric utility sector in the form of distributed generation, virtual net-metering, remote telecommunications, transactive energy (block chain), energy storage, electric vehicles, and data management, are creating significant business challenges for LDCs, requiring management and boards to critically review traditional business models and to set new strategic paths. LDC boards with the appropriate mix of skills and experience among their directors will be better able to successfully guide their organizations and to ensure future growth.

This report contributes to a fact-based understanding of the state of LDC governance in Ontario by using a unique data set created by the Ivey Business School from a survey of approximately 400 Ontario LDC directors. The data set contains information on director demographics and director views on LDC strategy, including mergers and acquisitions, diversification, and financial priorities. It finds that LDC boards differ significantly in the extent of professional experience amongst their directors and in the mix of independent and political (local councillor) appointees, and that these attributes lead to quite different director perspectives on LDC strategic priorities.

CORPORATE GOVERNANCE IN THE MUNICIPAL ELECTRIC UTILITY SECTOR

Corporate governance is the set of organizational processes and structures for overseeing a corporation's strategic direction and management to ensure that it meets its mandate and objectives. In Ontario, LDCs have been incorporated as private corporations since 1998, requiring municipal owners to treat them as commercial entities and to implement appropriate standards of corporate governance. The reorganization of the province's electricity sector in 1998 also put LDCs under direct regulatory control of the OEB so that they operate in the same manner as private sector gas utilities. This change reduced the discretion that municipal owners have in prescribing the operation of the LDC and altered the benefit of local ownership to that of being an investor-owner. In this context, the OEB has recently reinforced the requirement for LDCs to adopt effective governance mechanisms, noting that governance practices will be scrutinized in future LDC rate review applications, though it has as yet refrained from prescribing specific standards.

Boards of directors, which are responsible for stewarding corporations, are the key institution through which governance operates. Legislation and common law specify that the duties of directors are (i) to act in the interests of the corporation (fiduciary duty), and (ii) to use diligence, skill and prudence in their actions (duty of care).[1] Directors are appointed by shareholders, but their mandate is to act on behalf of the corporation rather than to pursue shareholders' specific interests in the case that these are not aligned with the corporation's interests.

Boards generally exercise their stewardship role in three major ways:

1. Establishing an organizational strategy that enables the corporation to successfully achieve its objectives. The board determines the approach for assessing business opportunities and risks, and it sets the tolerance level for the corporation in accepting risk.
2. Monitoring performance of the corporation against financial and operations goals, and setting internal control and reporting systems.
3. Appointing the CEO and monitoring performance, setting CEO compensation, and establishing succession plans and processes.

The function of boards is thus to monitor and guide organizational operations and performance, rather than to actively manage, which is the delegated responsibility of the CEO and executive team. Directors have full discretion to exercise their powers and judgment, and are expected to act independently of shareholders. Shareholders, who have a financial investment in the corporation, do not generally intervene directly in corporate operations, except for some fundamental transactions or changes. Instead, shareholders exercise their rights primarily by electing directors.

For government-owned corporations such as municipal LDCs, tension can exist between the profit-seeking goal of a commercial enterprise and politically-determined social objectives.[2] Because of this tension and the need to sometimes make operating and strategic compromises, government-owned corporations can perform less efficiently than their privately-owned counterparts.[3] Corporate governance structures, however, have the potential to mitigate these conflicts and to improve organizational performance, even in situations where privatization is not feasible for political or practical reasons.

The OECD has published best practice guidelines for corporate governance of "state-owned enterprises (SOEs)", meaning corporations and entities that are owned by municipal, provincial or federal governments.[4] Broadly, these guidelines recommend that governments should clearly establish the public policy rationale for government ownership and the objectives of the enterprise, while delegating operational autonomy to SOE management and independence to SOE boards. Specific OECD recommendations include:

Rationale for Government Ownership

- The government should develop an ownership policy that clearly and transparently defines the overall rationale for public ownership, SOE objectives, and the government's role in governance of the SOE.

The Government's Role as an Owner

- The government should act as an informed and active owner, and should exercise its ownership rights according to the legal structure of each enterprise.
- The government should allow SOEs full operational autonomy to achieve their defined objectives and refrain from intervening in management.
- The government should allow SOE boards to exercise their responsibilities and to act independently.

Responsibilities of Boards of SOEs

- The boards of SOEs should be assigned clear mandates and ultimate responsibility for the enterprise's performance. The board should act in the best interests of the enterprise and be fully accountable to the owners.
- SOE boards should effectively carry out their functions of setting strategy and supervising management, based on broad mandates and objectives set by the government. They should have the power to appoint and remove the CEO, and to set executive compensation at a level consistent with the long-term interests of the enterprise.
- SOE board composition should allow the exercise of objective and independent judgment. Board members should be appointed based on qualifications and in accordance with best practices in achieving diversity.
- Mechanisms should be implemented to avoid conflicts of interest that prevent board members from objectively carrying out their board duties and to limit political interference in board processes.

- Independent board members should be free of material interests or relationships with the enterprise, its management or major shareholders that could jeopardise exercise of objective judgment.

An expert panel in Ontario made similar recommendations on LDC governance as the OECD guidelines, emphasizing LDC board independence from political control and the need for professional qualifications and training of board directors. As the Ontario Distribution Sector Review panel noted in its 2012 report to the government:

"…it would be preferable to have 100% independent board membership…Boards should be adequately sized to have directors with an appropriate range of skills and experience, and be populated on the basis of directors' qualifications to meet the management and oversight requirements of an electric distribution utility…Boards [should] have a range of 7 to 11 directors. Regional distributors should also encourage their Board members to acquire proper training in the areas of governance and the roles of Boards."

The next section assesses the extent to which boards of LDCs in Ontario exhibit characteristics that are consistent with these governance best practice principles.

METHODOLOGY

Existing studies of LDC governance have typically relied on in-depth case studies of selected LDCs, which can yield important qualitative insights into the operation of governance in practice, but they have limited ability to draw general conclusions about patterns of behavior in the sector as a whole.

This report develops quantitative insights based on an extensive survey of all LDC directors in Ontario undertaken by the authors. The survey included questions on two broad sets of topics: the first set covered director characteristics, such as work experience, professional qualifications, and LDC board service. The second set of questions asked about directors' views on aspects of LDC strategy, namely diversification, mergers and acquisitions, and financial priorities. The specific issues that the survey questions addressed are as follows (see Appendix for the survey instrument):

Director Characteristics

- Year of appointment to LDC board
- Position on LDC board (Chair, Vice Chair, Committee Chair)
- Directorships of other organizations
- Professional qualifications (Engineer, Accountant, Lawyer, Director designation)
- Employment in electricity, gas or telecommunications sectors
- Senior executive experience (CEO, CFO, COO, President, VP)
- Experience in elected public office as a councillor or mayor

Director Views on LDC Strategy

- Diversification into affiliate or unregulated business activities such as renewable power generation, municipal water operations, powerline contracting, construction and engineering services
- Mergers, acquisitions and divestiture
- Dividend strategy
- Financial priorities around investment in regulated or unregulated business activities, dividends, and debt levels

The survey was sent by postal mail and/or email to the 384 directors of all LDCs in Ontario.[5] Responses were received from 166 directors (43% response rate) of 61 LDCs. The high response rate to the survey permits a greater level of confidence in drawing conclusions that are generalizable to the LDC sector overall. The next sections discuss some of the main quantitative results that emerge from an analysis of the survey responses.

LDC DIRECTOR CHARACTERISTICS

Who is the typical director of an LDC? On average, LDC directors appear to be quite experienced in senior executive management, regulated utilities, and in board work for other organizations (see Table 1). Two thirds of respondents have experience as a CEO, CFO, COO, Vice-President or Managing Director, with an average of 16 years of experience in these positions. One third of respondents have professional experience in regulated utilities, including electricity, gas or telecommunications sectors. Almost 40% have a professional qualification as an engineer, accountant or lawyer.

Table 1: Director Characteristics

	All Directors (n=166)	**Councillors/ Mayors** (n=64)	**Independent** (n=102)	**Large LDC** (n=108)	**Small LDC** (n=58)
Mayor or Councillor	38%	-	-	37%	41%
Years in Public Office	*13.4*	-	-	*14.0*	*12.5*
Senior Executive Experience	66%	44%	80%	72%	56%
Years of Experience	*16.2*	*15.4*	*16.5*	*16.0*	*16.8*
Regulated Industry Experience	33%	8%	48%	36%	26%
Years of Experience	*16-20*	*11-15*	*16-20*	*16-20*	*16-20*
Engineer	13%	2%	20%	14%	10%
Accountant	18%	6%	25%	19%	16%
Lawyer	8%	5%	11%	10%	5%
Director Designation	15%	6%	20%	20%	3%
Professional (Any of the Above)	48%	19%	67%	56%	35%
Years as LDC Director	8.1	8.3	8.0	7.5	9.3
Experience as a Director at Other Organizations	86%	91%	82%	91%	76%
# of Board Positions	*4.9*	*4.6*	*5.0*	*5.4*	*3.6*

Respondents have been LDC directors for an average of just over eight years. A large fraction (86%) are directors at other for-profit or non-profit organizations. However, only a small minority (15%) have an official director designation (e.g. Institute of Corporate Directors).

Councillor and Independent Directors

Approximately one third of directors who responded to the survey are elected councillors or mayors, which is broadly consistent with other analysis conducted by the authors of this report of local political representation on LDC boards in Ontario.[6] The typical LDC in Ontario has six board members, of which two would be a mayor or councillor. Naturally, there is variation among LDCs in the mix of councillor and independent directors: some LDCs have high shares of independent directors (e.g. Oshawa PUC at 100%), while others have a majority of councillors and mayors represented on the board (e.g. Veridian Connections at 64%).

The professional experience profiles of councillor directors are quite different from independent directors. While a large majority (80%) of independent directors have senior executive experience, less than half (44%) of councillor directors do so. There are also significant differences in the extent of experience in regulated sectors (48% for independent directors versus 8% for councillor directors) and in professional qualifications or formal director designations (67% versus 19%). Hence, as might be expected, while councillor directors bring local political and policy experience to LDC boards, independent directors have a comparative strength in private sector management and leadership.

Directors of Small and Large LDCs

The survey also identified differences in director profiles between large and small LDCs, where 'large' and 'small' are defined by dividing LDCs into two equally sized sets based on the median number of customers—'small' LDCs have fewer than 20,000 customers, 'large' LDCs have 20,000 or more customers.

Small LDCs, which are predominantly in rural areas, have more restricted local populations and workforce pools to draw on in selecting directors, implying smaller numbers of potential qualified candidates. Consistent with this, directors of small LDCs tend to have less senior executive experience on average compared to directors of large LDCs (56% versus 72%), are less likely to have professional or director designation qualifications (35% versus 56%), and have fewer board positions at other organizations (3.6 versus 5.4 positions). There is no significant difference, however, in the share of mayors or councillors on boards of small and large LDCs based on the set of survey respondents.

Implications

There are several corporate governance issues that arise from this descriptive profile of LDC directors. First, the relatively high representation of elected councillors and mayors increases the potential for political considerations to shape board decisions at the expense of commercial objectives and performance of the LDC. Councillor-directors can provide a valuable communication channel between the board and the broader municipal council, but their inclusion on the board can reduce actual or perceived independence from the municipal shareholder—counter to the core 'independence' governance best practice as recommended by the OECD. This may be less of a concern for LDCs where a minority of directors are elected councillors, though councillor-directors who are board committee chairs can have particular influence on LDC policy and strategy.

A second consequence of appointing councillors as directors is that since the number of directors on a board is fixed in the short-term as specified in corporate articles, independent directors are effectively 'crowded out'. Appointing a councillor to the board means forgoing an alternative independent director. With relatively small boards of six directors, the overall mix of skills and experience can shift substantially with the choice of a councillor or independent director given the large differences, as documented above, in private sector experience and professional qualifications of each type of director. In mature industries where there is little or gradual change in competitive forces, and the need to continuously adapt organizational strategy is reduced, the mix of councillor and independent directors may have less consequence for the performance of municipally-owned enterprises. However, in industries that are subject to disruptive external forces, as in the current electricity distribution sector, there is a more urgent requirement for boards to review and establish new strategies that enable the organization to compete and survive in a changing environment. Appointing board members with skills and experience that match the needs of the organization—that is, board members with experience in assessing rapidly changing business risks and opportunities and in strategic planning – becomes more critical during periods of industry turbulence.

DIRECTOR VIEWS ON ORGANIZATIONAL STRATEGY

The second part of the survey analysis provides evidence on directors' views about various aspects of LDC strategy, and how attitudes differ according to director characteristics.

Strategic Priorities

Directors were asked to rank order their strategic priorities for the allocation of additional resources in the hypothetical scenario that LDC profits increased in the next year. The four options were: a) Increase LDC expenditures (capital or operating), b) Increase affiliate/unregulated business expenditures (capital or operating), c) Increase dividends to shareholders, or d) Reduce debt (see Table 2).[7]

Table 2: Directors' Strategic Priorities

Option	**Independent** (n=102)	**Councillors/ Mayors** (n=64)	**Large LDC** (n=108)	**Small LDC** (n=58)
Increase LDC Expenditures	1st	2nd	1st	1st
Increase Affiliate Expenditures	2nd	3rd	3rd	4th
Increase Dividends	3rd	1st	2nd	2nd
Reduce Debt	4th	4th	4th	3rd

Survey Question: *In your view, if your LDC's profits were to increase next year, how should it allocate the additional funds?*

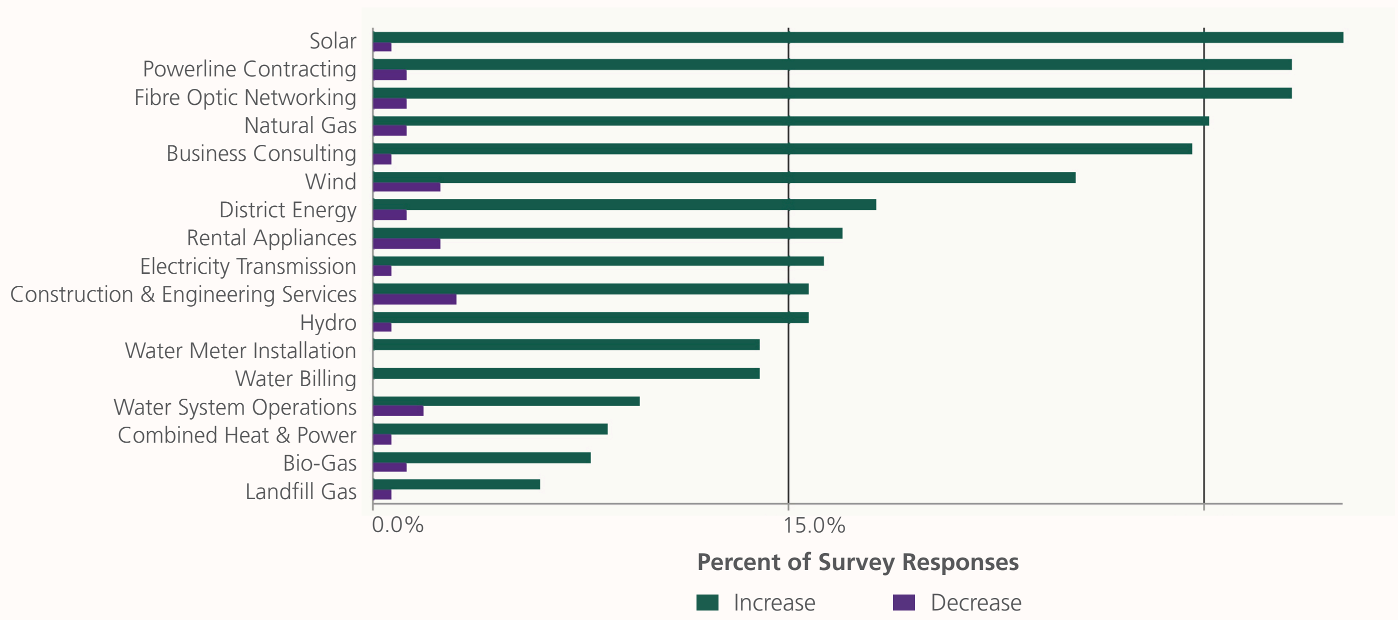
For independent directors, on average, the top priority was to increase LDC investments. This is consistent with the expectation of a relatively high allowed return on equity of almost 9% for new rate base capital as permitted by the OEB, though higher capital expenditures also put upward pressure on consumer rates. New affiliate investment ranked second, perhaps reflecting the wish to develop new areas of business growth that offset declining electricity demand and slowing revenue growth in core LDC electricity distribution operations. Higher dividend payments ranked third, while debt reduction ranked as the bottom priority.

The contrast with the priorities of councillor directors is marked: the top priority for this set, on average, was to increase dividends to municipal shareholders, while increasing LDC and affiliate investments ranked 2nd and 3rd respectively. As with independent directors, reducing debt was the lowest priority. The difference in priorities between independent and councillor-directors is consistent with the latter placing a greater weight on the LDC supporting—through dividend payments to the municipality—short-term local social or policy objectives.

Affiliate and Unregulated Business Activities

Reflecting the increasing importance of affiliate businesses for many LDCs, the survey solicited directors' views about the nature and extent of investment in specific unregulated activities. Directors were asked if the LDC should significantly increase or decrease its investments over the next few years in each of 17 different activities, ranging from solar and wind generation to appliance rentals and local water billing (see Figure 1).

Figure 1: Business Diversification



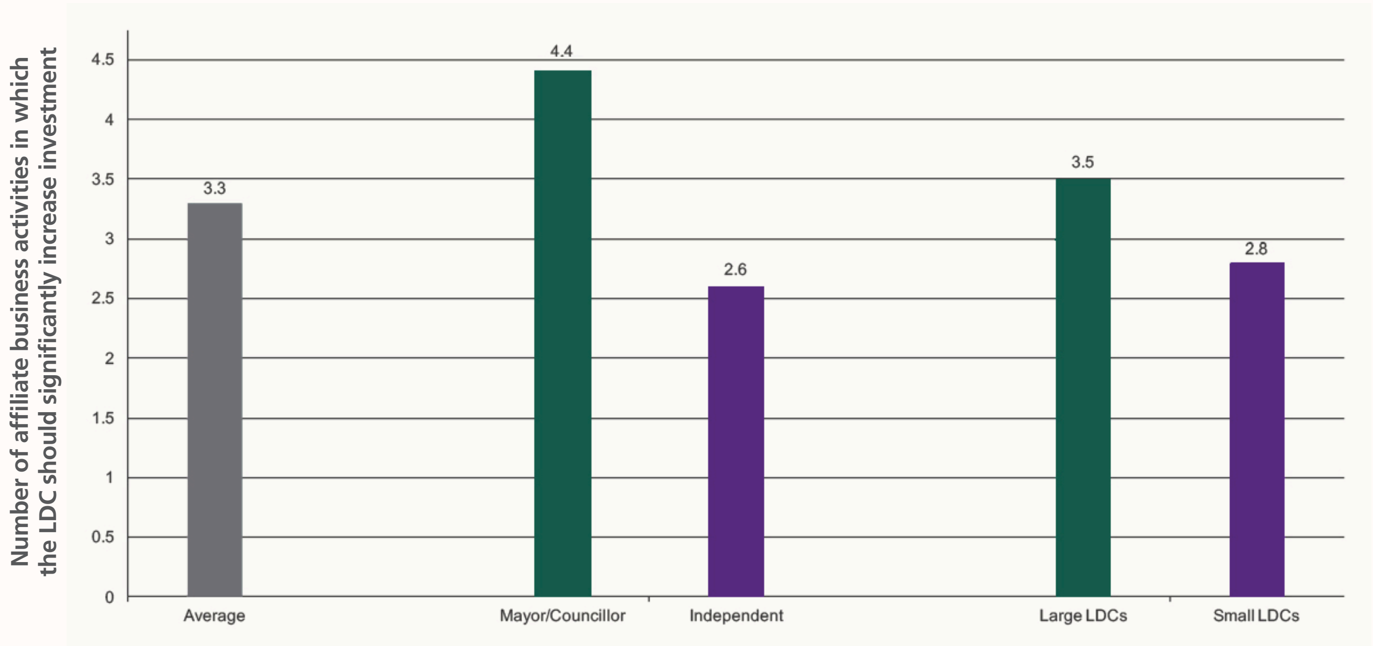
Survey Question: *Please indicate in which activities you believe your LDC or LDC holding company should significantly increase or decrease investments over the next few years.*

Overall, 70% of responding directors favored some expansion of investment into affiliate/unregulated businesses, with only a very small minority preferring a decrease. On average, directors identified approximately three separate business activities for future investment. The most frequently cited activities were solar power generation (40%), power line contracting (33%), fibre optic networking (33%), natural gas electricity generation (30%), and business consulting (28%)—a diverse set in terms of capital expenditure requirements, market risk, and organizational capability needs. The least frequently cited activities for investment were landfill gas electricity generation (7%), bio-gas electricity generation (8%), combined heat and power (9%) and water system operations (10%).

Again, there were some significant differences in preferences between types of directors (see Figure 2). Councillor-directors appear more risk-tolerant than their independent colleagues in supporting business diversification, identifying on average 4.4 distinct unregulated activities for new investment—against an average of 2.6 identified by independent directors. Councillors thus appear more willing to accept greater business risks in the search for new LDC growth opportunities.

Directors of large LDCs also exhibited, on average, greater willingness to invest in new business activities compared to directors of smaller LDCs. The former identified 3.5 unregulated activities for LDC investment while the latter identified 2.8. The more conservative approach of directors at smaller LDCs may be driven by tighter managerial and financial constraints, which limit the ability of smaller organizations to assess and undertake new initiatives in addition to existing core operations and routines. Larger organizations, on the other hand, often have access to resources to evaluate and execute new projects, making boards more willing to approve proposals from management.

Figure 2: Business Diversification by Director Type

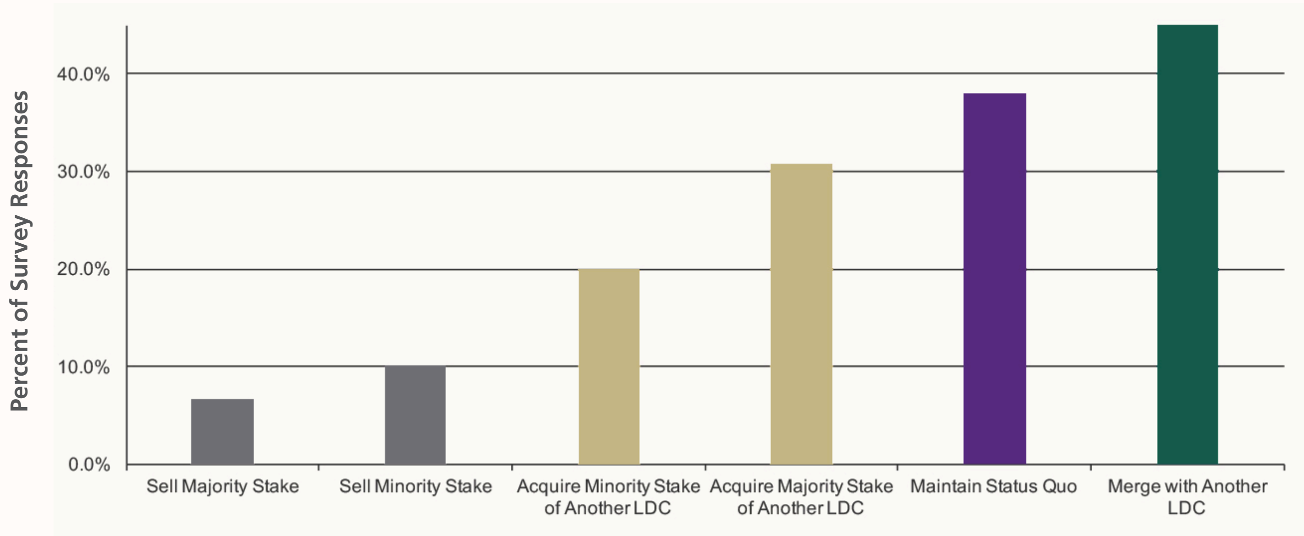


Merger and Acquisition Strategy

The fragmented structure of the distribution sector in Ontario has led to some consolidation in recent years, though the number of mergers and acquisitions has been small despite government policies (e.g. tax breaks) that were designed to improve the financial attractiveness of LDC consolidation. LDC directors play an important role in recommending and approving any change in organizational ownership or structure, so the survey included questions about directors' views on different ownership options, including selling majority or minority stakes, acquiring majority or minority stakes in another LDC, merger, or remaining with the status quo.

Overall, the survey results find that there is little appetite on average among LDC directors for either selling equity stakes or for acquiring equity positions in other LDCs (see Figure 3). The most preferred option was to merge with another LDC, as cited by 50% of respondents. The second most popular option was to maintain the status quo (38% of respondents).

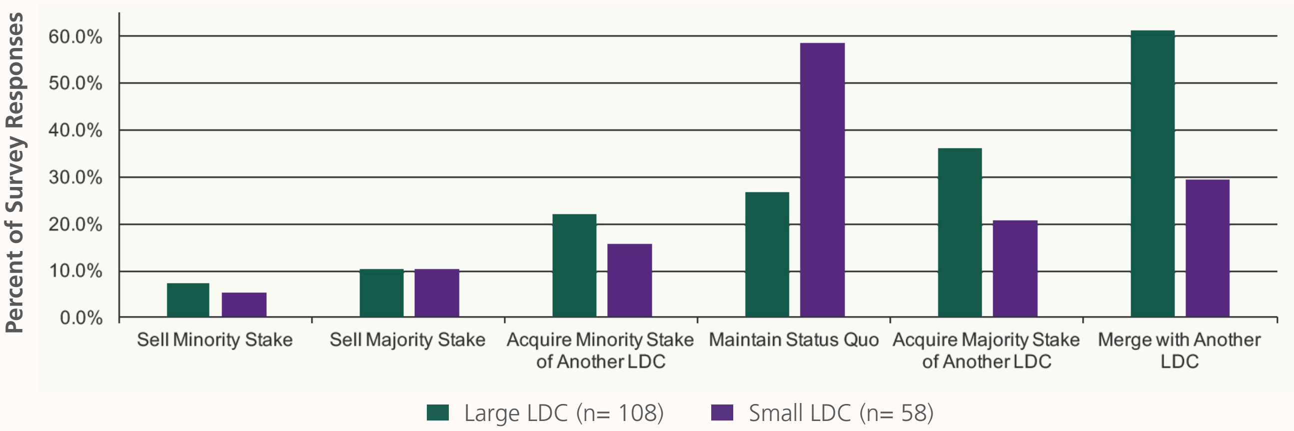
Figure 3: Merger and Acquisition Strategy



Survey Question: *In your view, do you think the shareholder(s) of your LDC should change their ownership in the LDC in any of the following ways?*

Statistical regression analysis identified significant differences in views between directors of large and small LDCs (see Figure 4). For the latter, maintaining the status quo was the most preferred option (59% of responses from directors of small LDCs), with merger a distant second place (29%). For directors of large LDCs, merger was the first option (61% of responses), while acquisition of a majority stake of another LDC was the second ranked option (36%). Hence, as with diversification into affiliate businesses, directors of large LDCs appear to be more willing to undertake significant changes to the organization's ownership structure than are directors of small LDCs.

Figure 4: Merger and Acquisition Strategy (Small and Large LDCs)



Survey Question: *In your view, do you think the shareholder(s) of your LDC should change their ownership in the LDC in any of the following ways?*

There was a notable difference between independent and councillor directors in M&A priorities: the latter were more likely to favour acquisition of an equity stake in another LDC than the former. Prior senior executive experience also has an impact on views about M&A: controlling for other factors, directors with greater leadership experience were more likely to favour acquisition and less likely to favour the status quo.

Implications

Combined, these attitudinal survey results highlight important differences in strategic views between directors, depending on their personal professional histories as well as their organizational contexts. Two sets of differences are apparent. First, on average, councillor directors prefer more aggressive LDC growth strategies, either through broader business diversification or through acquisition of other LDCs, than do independent directors—perhaps in the pursuit of higher dividend payments to the municipality. However, they are constrained in their ability to achieve higher growth since they appear less willing to invest in these options if there is a trade-off with maintaining dividends, their top financial priority.

Second, the size of the LDC has a fundamental impact on directors' preferences, even after accounting for professional attributes and whether being an independent or elected councillor director. On average, directors of smaller LDCs have a stronger bias towards the status quo than directors of larger LDCs, and are less willing to undertake new strategic moves such as diversification or merger. Yet, paradoxically, it is small LDCs that may benefit the most from the improved economies of scale and scope associated with mergers.[8]

As a caveat, it should be noted that these inferences are based on average tendencies in the sample of survey responses. There will always be variation at the individual level: some councillor directors may have extensive senior executive experience in their prior careers or they may place little weight on the political benefits of higher LDC dividend payments; and some independent directors may have minimal management experience or professional qualifications. Analysis of the views and priorities of any specific LDC board would thus need to account for individual director heterogeneity.

CONCLUSION

Electric utilities in many countries are under increasing pressures to seek new sources of growth as their traditional business models and financial performance are being challenged by multiple technological innovations, falling consumer demand for electricity, and regulatory downward pressure on rates. In Ontario, the government has enacted legislation that relaxes constraints on LDC affiliates for diversifying into unregulated business activities, creating new opportunities for LDCs to expand beyond their historic geographic markets and businesses. But undertaking major organizational change is risky, particularly for regulated firms that have minimal experience of operating in competitive environments where customers, competitors and unexpected innovations present continuously changing demands.

For municipal owners, these challenges in the LDC sector make it an appropriate time to actively review corporate governance structures and practices in light of the OECD’s governance principles. Municipalities should appoint the most qualified directors possible and constitute boards with the necessary mix of skills, experience and diversity to guide LDCs through a period of transition. The survey results presented here find that councillors and independent directors on average tend to hold different views on LDC strategy and priorities, which may reflect tension between social and commercial priorities as well as differences in professional backgrounds. One risk is that mixed boards may not be able to reach consensus on future LDC strategy, stymieing organizational adaptation to a changing environment. As new LDC director positions come available, municipal councils should thus pay careful attention to the composition of the existing board, skill or experience gaps, and the specific needs of the organization when appointing new members. Increasing the number of qualified independent directors would align with OECD governance recommendations and help LDCs adapt to a rapidly evolving electricity sector.

APPENDIX: SURVEY INSTRUMENT

Name: ____

1. Please identify the LDC of which you are a director: ____

2. In which year were you first appointed as a director of your LDC? ______________________________

3. Please indicate any of the following positions you have held as a director of your LDC:

☐ Chair ☐ Vice Chair ☐ Committee Chair

4. Are you, or have you been, a director of any other organization (for profit or not-for-profit)?

☐ Yes ☐ No

4b. If yes, for how many other organizations? ____

5. Do you currently hold, or have you held, any of the following professional designations?

☐ Professional Engineer

☐ Professional Accountant

☐ Licensed Lawyer

☐ Institute of Corporate Directors Designation or Chartered Director (ICD.D or C.Dir)

6. Have you ever worked as a full-time employee in the electricity, gas, or telecommunications sectors?

☐ Yes ☐ No

6b. If yes, for how many years?

☐ 1-5 ☐ 6-10 ☐ 11-15 ☐ 16-20 ☐ 21-30 ☐ 30+

7. Have you ever held any of the following full-time employment positions: CEO, CFO, COO, President, Vice-President, Managing Director, Executive Director?

☐ Yes ☐ No

7b. If yes, for how may years have you or did you hold an executive position:______________________

8. Are you currently, or have you ever been, a mayor or city councilor?

☐ Yes ☐ No

8b. If yes, for how may years have you been, or were you, in office? ______________________________

SECTION 2: LDC Affiliate and Unregulated Business Activities

9. Has your LDC or LDC holding company significantly increased or decreased the level of investment activity in affiliate or unregulated business activities over the last five years?

☐ Yes ☐ No

9b. If yes, please indicate in which activities your LDC or LDC holding company has significantly increased or decreased investments

	Increase	Decrease
Power Generation		
Solar	○	○
Landfill Gas	○	○
Hydro-Electric	○	○
Bio-Gas	○	○
Natural Gas	○	○
Combined Heat and Power	○	○
Wind	○	○
Other Business Activities		
Water/sewage billing	○	○
Water meter installation and service	○	○
Water system operations	○	○
Rentals of water heaters, furnaces, water softeners, or air conditioning units	○	○
Electricity transmission	○	○
Powerline contracting	○	○
Fibre optic networking	○	○
District heating / cooling	○	○
Construction and engineering services	○	○
Business consulting and support services	○	○
Other (please state below): ______________________	○	○

10. In your view, do you think your LDC or LDC holding company should significantly increase or decrease the level of investment activity in affiliate or unregulated business activities over the next few years?

☐ Yes ☐ No

10b. If yes, please indicate in which activities you believe your LDC or LDC holding company should significantly increase or decrease investments.

	Increase	Decrease
Power Generation		
Solar	○	○
Landfill Gas	○	○
Hydro-Electric	○	○
Bio-Gas	○	○
Natural Gas	○	○
Combined Heat and Power	○	○
Wind	○	○
Other Business Activities		
Water/sewage billing	○	○
Water meter installation and service	○	○
Water system operations	○	○
Rentals of water heaters, furnaces, water softeners, or air conditioning units	○	○
Electricity transmission	○	○
Powerline contracting	○	○
Fibre optic networking	○	○
District heating / cooling	○	○
Construction and engineering services	○	○
Business consulting and support services	○	○
Other (please state below): ____________________	○	○

SECTION 3: LDC Strategic and Financial Planning

11. In your view, do you think the shareholder(s) of your LDC should change their ownership position in the LDC in any of the following ways (check all that apply)

- ☐ Sell a minority stake of the LDC
- ☐ Sell a majority stake of the LDC
- ☐ Acquire a minority stake of another LDC
- ☐ Acquire a majority stake of another LDC

- ☐ Merge with another LDC
- ☐ Maintain current ownership
- ☐ Other (please state):

____

12. In your view, if your LDC's profits were to remain the same next year, should the amount of dividend payments remain the same, increase, or decrease (as compared to the most recent year)?

☐ Increase ☐ Decrease ☐ Keep the same

13. In your view, if your LDC's profits were to increase next year, how should it allocate the additional funds? Please rank by priority the following options (1st = highest priority):

	1st	2nd	3rd	4th
Increase dividend payments to shareholder(s) (municipal or private)	○	○	○	○
Increase LDC expenditures (capital or operating)	○	○	○	○
Increase affiliate/unregulated expenditures (capital or operating)	○	○	○	○
Reduce debt	○	○	○	○

Additional Comments (Optional)
Please feel free to add any additional comments or responses to the questions here:

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Please provide your preferred email address if you wish to receive an electronic copy of the final report:

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NOTES

[1]Directors' duties in Ontario are established in the Ontario Business Corporations Act (see section 134) as well as in case law (for a discussion of the latter, see report by Elenchus, "Corporate Governance for Regulated Natural Gas and Electricity Utilities", June 22, 2016, available at https://www.oeb.ca/sites/default/files/uploads/Elenchus_Draft_Report_Corp_Governance_20160622.pdf).

[2]For examples of tensions that can arise in municipally-owned LDCs, see Warren and Ferguson (2016), "Corporate Governance for Municipally-Owned Local Electricity Distribution Utilities", available at http://www.weirfoulds.com/LDCs

[3]There is a large academic literature that explores whether and how ownership (i.e. government or private) affects enterprise performance. Megginson and Netter (2001) provide a comprehensive survey published in the Journal of Economic Literature.

[4]*Organization for Economic Cooperation and Development*. 2015. Guidelines on Corporate Governance of State-Owned Enterprises.

[5]Director names and addresses for each LDC, which have to be officially registered by LDCs, were obtained from Corporate Profiles purchased from ServiceOntario.

[6]Based on publicly available information gathered from regulatory filings and LDC websites, the authors estimated that approximately 25% of LDC directors are mayors or councillors.

[7]Some municipalities in fact provide guidance to LDC boards on dividend policy in shareholder agreements that stipulate the percentage of net income (e.g. 50%) that should be paid to the municipality as a dividend.

[8]Academic studies have estimated the extent of scale economies in electricity distribution, e.g. Growitsch, Jamasb and Pollitt (2011), "Quality of service, efficiency and scale in network industries: an analysis of European electricity distribution", *Applied Economics*, 41(20): 2555-2570; and Yatchew (2000), "Scale economies in electricity distribution: a semi-parametric analysis", *Journal of Applied Econometrics*, 15(2): 187-210.

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