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From: Benjamin Dachis
To: Ontario Municipal Owners of Electricity Distribution Companies
Re: THE TIME IS COMING FOR SOLUTIONS TO ONTARIO'S ELECTRICITY DISTRIBUTION NEEDS

Ontario's ambitions to build housing and electrify cars, home heating, and other things, is about to hit a bottleneck: municipally owned electricity distribution companies putting the bill for massive grid upgrades on property tax bills.

Municipally-owned local distribution companies (LDCs) – like Toronto Hydro or Alectra and Elexicon in the surrounding towns and cities -- run and manage the end delivery electricity infrastructure for the bulk of Ontario households. This arrangement has worked for municipal governments and the electricity system for the last few decades. The grid slowly expanded, and municipal owners of the LDCs received steady dividends earned from ratepayers. Those dividends helped keep property taxes down. Everything ran smoothly as long as electricity demand grew slowly.

But now Ontario faces the fastest electricity growth outlook in decades. Electricity demand in Toronto, for example, is forecast to double in less than two decades. Without reforms, municipalities will be forced to either delay necessary grid upgrades, risking power outages, or imposing big costs on ratepayers or taxpayers.

LDC reform matters for connecting new homes to the grid and for electrification more broadly. The red in this map of the Greater Toronto Area represents areas where the local electricity grid is operating close to capacity. It's in these communities where demand is highest – where families are trying to put down roots and where businesses are trying to grow – that our current system is most constrained. The investment challenge is about bridging the gap between what people will need and what the grid can deliver.

Reforming how we pay for and build electricity distribution capacity is key to unlocking new housing supply and economic growth across the region. The current regime gives municipal governments an impossible choice: risk not having enough power or increase electricity rates and/or taxes to fund new distribution infrastructure.

The problem is that cities are on the hook to fund the response to unprecedented growth in electricity demand as the sole owners of LDCs. Full ownership meant cities got dividends when electricity systems were not growing, but it also means that cities need to finance the growth themselves.

Cities cannot escape this financing problem on their own because of the constraints that federal and provincial governments have placed on the ownership structure of municipal electricity distribution networks. Basically, LDCs don't have to pay federal taxes as long as they remain less than 10 percent privately owned. If private ownership exceeds 10 percent, the LDC gets hit with a "departure tax" by the province. This tax can be significant, making it financially infeasible to accept private investment beyond the 10-percent threshold. The province collects the tax, even though it's enforcing a federal tax rule. This needs to change.

What we need now is a partnership between municipal governments and investors willing to help strengthen our electricity grids. Canadian pension funds should be at the front of the line to invest in local distribution for our province's future economic and social well being. These are long-term assets with a steady rate of return. With the right governance structure and a fast, predictable regulatory environment that balances consumer and investment needs, these are the perfect assets for long-term investors. Opening more investment opportunities through tax reform would better promote domestic investment than mandating pension funds to invest in uneconomic projects. It is also the best way to ensure we keep taxes and electricity rates down while growing the grid.

Ontario cannot meet its housing targets, electrify its economy, or keep costs under control with a distribution system designed for a slower-growth era. Without new capital our province's growth will stall where it should be thriving. The province is investing in the generation to serve these areas. What's needed now is the infrastructure to get the power there.

LDC reform is about modernizing a structure that no longer fits the province's needs. If the government is serious about building homes, powering industry, promoting domestic investment, and keeping both taxes and electricity bills affordable, then giving municipalities real options to partner, invest, and expand the grid is not just sensible policy, it is essential.

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