As set forth earlier in this report, until recently the NCPC recovered its costs from charges to customers that were reasonable in relation to rates elsewhere in Canada. The capital costs of new hydro facilities and the increasing cost of fuel for diesel plants, however, have led to rapidly escalating electrical power costs, and rates are now clearly out of line with most of the rest of Canada.

In determining how electrical power should be financed in the future, the subcommittee has been conscious of its present high cost and the potentially adverse effect that this may have on northern development. The Canadian tradition has been to subsidize such services as transportation that are vital to national development. Many other services in the North are subsidized from public funds. The northern practice is to write off capital expenditures, limiting any user-pay philosophy to the incremental costs of current operations. The subcommittee believes that electrical power should not be singled out as one of the few services where northern residents pay the full cost.

Currently, the NCPC has great difficulty financing capital projects because the NCPC Act requires it to recover all costs. The NCPC either has to build facilities exactly equal to current demand or has to charge customers for generating capacity in excess of their current consumption. Under these circumstances, the NCPC is almost forced to build hydro facilities only after the demand has already built up, servicing such demand in the intervening period by diesel-generated power, which is less capital intensive.

The federal government has been much more flexible in its financing arrangements in support of the construction and operation of the Point Lepreau nuclear power facility in New Brunswick. First, interest is to be forgiven completely for a fixed period of time. This lowers the capital cost of the project and helps during the early period when demand does not equal capacity. Second, the federal government is providing performance-related loans whereby funds are advanced if power generated is less than a target amount, and such loans are repaid when it exceeds this amount.

The Office of the Auditor General suggested in 1981 that the commission examine with Treasury Board the possibility of changing the capitalization of the commission to make it a more viable enterprise. In the past few years, the Government of Canada has taken action to make a number of other Crown corporations more financially viable. In some cases, such as that of Atomic Energy of Canada Limited, substantial loans have been written off to recognize that assets were overvalued in relation to their income-generating capabilities and that they could only be repaid out of appropriations from the federal government. In cases such as that of the the St. Lawrence Seaway, substantial amounts of debt have been converted to equity, thereby relieving these corporations of substantial interest charges. The former arrangement is more favourable in that it relieves the Crown corporation of both depreciation and interest charges, whereas the debt-to-equity conversion only reduces interest charges. The subcommittee understands, however, that the government's current policy is to convert debt to equity only if the Crown corporation can earn a rate of return on the resulting equity equal to or better than the current costs of money to the federal government.