requirements and induce private utilities to provide management services, but private-sector financing of all costs would likely result in power rates as unacceptable as those of the NCPC. Some more radical solution is required.

C. Territorial Government Financing

The territorial governments now rely on the federal government to grant them funds to cover the substantial portion of their expenditures not met out of their own revenues. These grants cover not only operating requirements, but also most capital requirements. As such, both are budgetary charges in the accounts of Canada, and the territories have no obligation to repay them. This explains the relatively debt-free status of the territorial governments, since only self-amortizing capital grants are treated as loans.

The territorial governments now have few Crown corporations. Where they do, they make operating grants to them to cover their net expenditures and capital grants to cover their capital requirements. Thus, if the territories should make any debt or equity investment in electrical power utilities, under present practices the funds would come from the federal government in the form of capital grants. The territories can borrow in the private sector if they have order-in-council approval from the federal government, or a case could probably be made for a loan, instead of a grant, from the federal government, but in both cases the lenders would want to know that the loan is repayable from other than federal government funding.

Because the federal government's operating and capital grants to the territories are accounted for as expenditures, any assistance provided by the territorial governments would be expenditures of the federal government in the same way as if made directly. By contrast, advances to the NCPC are treated as loans, or non-budgetary expenditures, on the assumption, and indeed requirement of its act, that they be fully recoverable from charges to power users.

Therefore, unless all costs of electrical power are to be recovered from consumers, any participation by territorial governments will ultimately be accounted for as federal government expenditures. Under the federal government's present accounting rules, an organization must be able to repay out of internally generated funds any investment of the government in it, as well as pay a return for the use of the capital roughly equal to the federal government's current borrowing costs, before any financing by the Government of Canada can be treated a loan—that is, as a non-budgetary expenditure.

D. Existing Subsidization of Electrical Power Costs

Although the NCPC and the private utilities have been remarkably successful in recovering their costs from consumers, costs to consumers in the North have been subsidized