

# McCULLOUGH RESEARCH

**ROBERT F. McCULLOUGH, JR.**  
**PRINCIPAL**

Date: December 11, 2017

To: Ken Boon  
Rob Botterell

From: Robert McCullough

Subject: Comments on the Materials from Mr. Eby

Mr. Eby stated that “that if we abandoned the Site C project, we would incur an immediate \$3-4bn public charge on either hydro ratepayers or BC taxpayers.” It is unfortunate that Mr. Eby received incorrect information, but Mr. Eby’s best path would have been to check with the BCUC for guidance on standard regulatory practice.

I gather that Mr. Eby was unaware that the BCUC calculations had set amortization periods for the sunk costs and the reclamation expenses. The analysis assumed a seventy-year amortization period for the sunk costs of \$2.1 billion. They also assumed a thirty-year amortization period for the reclamation costs. In passing, their estimate of the reclamation costs was quite a bit higher than the evidence. Both BC Hydro and Deloitte forecasted costs in the \$1 to \$1.2 billion range.

Regulatory practice puts the amortization of prudently undertaken utility investments as an issue in the purview of the regulatory commission. An Order in Council can direct the BCUC to choose different amortization periods, but this would simply be an exercise in self-inflicted pain.

If an asset is recognized by regulators as an earning asset, the usual policy would be to write it down on the same schedule as that set by the regulatory commission. Again, the Cabinet can choose to accelerate the depreciation of an earning asset, but this would be a second way to cause their constituents injury.

It appears from Mr. Eby’s letter that he believes that the financing of the \$2.1 billion sunk costs has been held in abeyance. This is a curious belief. British Columbia has a continuous financing program designed to balance cash requirements and cash inflows. These needs drive the province’s issuance of bonds. The province has already spent the \$2.1 billion dollars and the cash has been disbursed. The cash is found through taxes

Comments on the Materials from Mr. Eby

December 11, 2017

Page 2

---

and the sale of bonds. For a long-term capital asset like Site C, the province would normally issue thirty-year bonds which, indeed, is what the province has done.

Mr. Eby has also raised a concern that Moody's (the only bond rating firm that has expressed concerns about BC Hydro's unusual finances) would react negatively to the recovery of the \$2.1 billion. Regulatory recovery of the costs of termination is a very common practice in the utility business and is addressed in every utility's annual report. However, the proposed solution is to propose spending \$8 billion more on an asset that could be replaced for only \$4 billion. This, indeed, may concern the bond raters and has been a factor in the downrating of the two provinces – Manitoba and Newfoundland – who have followed the proposed path.

As I concluded recently:

BC's triple A rating was just confirmed and will not be downgraded by cancelling Site C. BC is already financing the \$2.1 billion in sunk costs with 30-year bonds at a cost of \$ 57 million per year, not \$300-400 million per year. Even if the inflated \$1.8 billion in termination costs are added, cancelling Site C will save ratepayers at least \$266 million/year or \$123/household in 2024.

If Mr. Eby and his colleagues wish amplification, I am a willing volunteer.