

# McCULLOUGH RESEARCH

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PRINCIPAL

Date: December 7, 2017  
To: Ken Boon  
From: Robert McCullough  
Subject: Repayment of \$2.1 Billion Sunk Cost and \$.5-\$1.8 Billion Reclamation Cost of Site C

I understand that you have been advised that the most important sticking point for canceling the Site C dam is the rate impact. Let me share with you my calculations and observations.

## ***Rate Impact of \$2.1 Billion Sunk Cost***

The first issue is the \$2.1 billion already spent. It is important to note that this amount has already been financed with 30-year bonds and is being paid back on a quarterly basis by BC taxpayers. There is no need to change this approach with or without Site C proceeding.

Importantly, BC's AAA credit rating was recently confirmed taking into account this \$2.1 billion financing commitment.

If the BC Government decides to convert this to ratepayer supported debt, it is the BC Government that ultimately can direct what the amortization is for that debt.

The BCUC treatment was to amortize this over seventy years. Regardless of statements to the contrary, this is well within the BCUC's authority.

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The 2024 impact (projected completion date if Site C proceeded) of this is \$104 million per year or \$48 per household.

Also, it is important to recognize, even if some do not fully accept the concept of the “Sunk Cost Fallacy”, not all of the \$2.1 billion is “wasted” when Site C is terminated. Part of that money was used for building infrastructure and developing resources in the Peace valley region that have a value and will be utilized.

***Rate Impact of \$.5 Billion (First Nations estimate) - \$1.2 Billion (BC Hydro/Deloitte estimate) - \$1.8 (BCUC estimate) Reclamation Cost***

There are widely differing estimates of reclamation costs. The very high BCUC reclamation cost estimate of \$1.8 billion was amortized over thirty years.

The 2024 impact of \$1.8 Billion over 30 years is \$123 million per year or \$57 per household.

We think this rate impact estimate is very high, especially given the much lower reclamation estimates of BC Hydro and Deloitte, not to mention the \$ 500 million First Nations estimate. There is also nothing preventing the BC government from using a longer amortization period.

Lower reclamation costs and a longer amortization period would reduce this impact.

***How does the rate impact of Site C cancellation compare to the rate impact of Site C completion?***

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Completing Site C (the BCUC base case) involves a minimum cost of \$10 billion amortized over seventy years. The rate payer impact in 2024 would be \$492 million per year or \$228 per household.

Further cost overruns are expected to increase the total project cost to \$12 billion + which will further increase the rate impact.

The bottom line is that regardless of BC Hydro's claims, the current estimate based on BCUC findings is that cancelling Site C will save rate payers a minimum of \$266 million per year or \$123 per household in 2024.

There is nothing in the law or regulatory practice requiring that BC rate payers be penalized for a termination of a project that is twice the cost of the wind backed by Mica Dam alternative, headed for further cost overruns that could take the total project cost to \$12-\$15 billion, poorly managed, environmentally costly, and one which has adverse impacts on the ability of First Nations to exercise their treaty rights.

And this is without entering into a long term sales agreement of BC power under the Columbia River Treaty entitlement which would generate billions of dollars to offset Site C cancellation costs and fund BC government infrastructure projects.

Yours,

A handwritten signature in black ink, appearing to be the initials 'R' followed by a stylized flourish.