

McCULLOUGH RESEARCH

ROBERT F. MCCULLOUGH, JR.
PRINCIPAL

Date: September 21, 2017
To: McCullough Research Clients
From: Robert McCullough
Subject: BCUC's Preliminary Findings

Last night, the British Columbia Utilities Commission released its preliminary findings in the Site C inquiry. The two hundred and five page preliminary findings are very direct about the many failings in British Columbia Hydro's continued support for Site C.

First and foremost, the document continuously criticized British Columbia Hydro for failing to provide relevant and supportable materials. This was British Columbia Hydro's important opportunity to 'show its work' and demonstrate to the BCUC the detailed basis for the assertions BC Hydro has made in support of continuing Site C. However, despite the 800-page BC Hydro submission, the lack of substantive content and transparency did not go unnoticed by BCUC. The gamble lost – the BCUC has responded with seventy three official questions representing requests for hundreds of files, studies, and calculations.

Second, the BCUC has, preliminarily, rejected the foundations of the Site C submission. Is Site C on time and on budget? The preliminary findings makes it clear that no one knows. Will it be delayed? Deloitte's concerns about the 2019 river diversion—and the significant cost consequences of that—are supported in the preliminary findings.

Is it needed? British Columbia Hydro's forecasts are undocumented, but historically far too high. And the findings question a variety of the forecast components.

How much does Site C cost? For years British Columbia Hydro has used the mysterious "UEC" measure – Unit Energy Costs – without definition or a formula. The UEC has effectively been rejected.

Should Site C enjoy special low cost financing not used for alternatives? As every analyst has noted, this odd idea makes no economic sense. The BCUC has rejected the special financing calculations.

BCUC's Preliminary Findings

September 21, 2017

Page 2

Are renewables viable? British Columbia Hydro has held that renewables aren't viable in the province – apparently the exception for states and provinces in North America. The BCUC has not accepted this argument either.

Can the surplus energy and capacity be sold to the United States? The BCUC has questioned the lack of detail in this assumption and demanded evidence of why expensive British Columbia Hydro energy could be profitable in the face of rapidly declining prices in the Mid-Columbia market.

Overall, the BCUC has effectively removed the foundations of British Columbia Hydro's defense of Site C. It has requested that the defense be resubmitted in its entirety, but this time with transparent calculations, detailed analyses, and compatible industry methodology.

It should be noted that Deloitte and the British Columbia Utilities Commission are operating under a punishingly short schedule and performing admirably. The scale and depth of the comments in the Preliminary Findings document are very encouraging.