

## 'Cash bonfire': Report says cancelling Site C would save ratepayers \$116 million

Tom Summer / Alaska Highway News

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Aerial view of the Site C spillway headworks, stilling basin, intakes, penstocks, and powerhouse, June 2020.  
Photo By BC HYDRO

Cancelling Site C construction five years into its construction would save B.C. ratepayers \$116 million a year, according to an energy economist once tapped by the NDP to provide expert advice about the project.

A report authored by Robert McCullough, a well known economist and expert on power projects, and released by the Peace Valley Landowner Association on Oct. 13 raises questions about the financial viability of the project as engineering problems mount and costs skyrocket overbudget.

"After ten months of study, British Columbia Hydro has not addressed a number of seismic and design concerns first reported to management in December 2019," McCullough writes in his opening sentence. "A careful review indicates that correction of the current problems will delay the in-service date by one year and raise costs by an additional C\$2.1 billion dollars."

The NDP pressed ahead with Site C construction after forming government after the 2017 election, and raised its budget from \$8.8 billion to \$10.7 billion following a months-long review that included expert advice from McCullough.

McCullough says cancelling the project is the best economic option due to geotechnical issues and seismic activity risks, falling costs for wind and solar, and a \$1.1-billion dollar loss by BC Hydro in related interest contracts.

"Site C's ability to compete in an increasingly competitive energy sector has deteriorated sharply over time," McCullough writes.

"At the current schedule, if output is exported Site C will cost rate payers significantly more than the energy can be sold for in the market. Assuming an additional year of delay, Site C's value relative to the market will have declined even further."

Earlier this year, BC Hydro reported to the BC Utilities Commission (BCUC) that the COVID-19 pandemic, which had required a scaling back of the project's work force, as well as geotechnical issues, have resulted in uncertainties on both the completion date and final cost of the project.

The NDP government responded by appointing Peter Milburn, a former deputy finance minister, as a special advisor to review the Site C dam project and provide an independent assessment.

McCullough's own assessment notes the ongoing and primary concern with geological instability where Site C is located, noting Site C is situated on shale in an area with unstable banks and substantial tectonic activity.

"The siting of major hydroelectric projects basically considers geology and cost. The best sites are narrow rocky canyons. These provide large reservoirs and firm footings," he writes.

"The West Coast of the U.S. and Canada has a number of such sites. Most are on the U.S. side of the border. The Peace River has an excellent site – Williston – but BC Hydro then faces significant geological problems in finding additional sites."

There were nearly 4,700 employed on the project as of last report, and both the BC Liberals and BC Conservatives support continuing the project to completion. The BC Greens have called for it to be cancelled.

Meanwhile, BC Hydro began diverting the Peace River around the dam site in early October, setting the stage for earthfill dam construction to begin.

On the campaign trail last week, Horgan did not directly answer whether he thought it was prudent to continue construction while special advisor Milburn is completing his assessment.

"When there was concerns about the stability of the bank we appointed an engineer, a former deputy minister of highways, and former deputy minister of finance, to look at the situation independently and report back to government," Horgan said. "That work is underway. I'll have a better opportunity to ask that question when I've seen that work."

During a [debate on CKNW radio](#) on Thursday, Horgan elaborated: "We'll take a good hard look at that evidence, and if the science tells us and the economics tells us it's the wrong way to proceed, we'll take appropriate action."

When Horgan and the NDP made the decision to continue construction in 2017, Horgan said cancelling Site C that would have meant an "unavoidable" \$4-billion hit to the books.

McCullough says that argument doesn't hold much water. He says his projected savings of \$116 million to ratepayers each year would increase over time as prices for wind and solar power continue to decline.

"The nature of politics is such that economic analysis in Site C has always considered sunk costs as a critical item in the decision whether to go forward with the project," writes McCullough.

"Economic theory categorically states that sunk costs are, in fact, sunk. They are not part of the analysis in any economic decision."

The Peace Valley Landowner Association president Ken Boon called Site C a "cash bonfire."

"I am confident that the forthcoming Peter Milburn Site C Report will confirm what McCullough Research has already found – putting an end to Site C is in the best interests of British Columbians," Boon said.

"As indicated by the government, a lot hinges on that, so the sooner the better. We're hoping that the government will release it as soon as it becomes available to the public."

**Read McCullough's report below:**

[Reassessment of Site C Financial Viability - McCullough Research](#) by [AlaskaHighwayNews](#) on Scribd

The screenshot shows a document page with the following content:

## Reassessment of Site C Financial Viability - McCullough Research

### Updating Site C Cost Estimates for Schedule Changes

Robert McCullough  
McCullough Research  
October 12, 2020

After ten months of study, British Columbia Hydro has not and design concerns first reported to management in December. The Landowners Association has asked us whether it is in the best interests of British Columbians to immediately cancel or to continue construction of the project.

A careful review indicates that correction of the current schedule by one year and raise costs by an additional C\$2.1 billion. The percentage of completion falls from 48% based on the current schedule to 38% if the currently identified problems are addressed.

Site C's ability to compete in an increasingly competitive market will decline sharply over time. At the current schedule, if output is expected to be significantly more than the energy can be sold for in the next year of delay, Site C's value relative to the market will have declined significantly.

In the most likely case, Site C's output will be surplus to market demand. BC Hydro will spend C\$69.77/MWh to complete and transmit the project. The energy will be sold for C\$38.85/MWh. If, as we expect, BC Hydro increases its budget and a budget increase, they will be spending C\$93.98/MWh to complete and transmit the project.

At the bottom of the page, there is a navigation bar showing '1 of 16' pages, a search icon, a download icon, a share icon, and a full-screen icon.