

Opinion: Site C proponents fall prey to sunk-costs fallacy



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Roller-compacted, concrete-conveyor construction at the south bank of B.C. Hydro's Site C dam project near Fort St. John. *B.C. HYDRO*

Recently, professors Shaffer and Richards recommended finishing the costly Site C project in order to reduce carbon emissions in Alberta. This

proposal compounds the sunk-costs fallacy with a curious desire to ship expensive electricity to Alberta — where much-cheaper alternatives are also available.

First, the technical name for throwing good money after bad is the “Sunk-Costs Fallacy.” Our newest Nobel laureate in economics, Dr. Richard Thaler, was awarded this honour for his work in behavioural economics. Here is what he has to say on the Sunk-Costs Fallacy:

This fallacy, which is related to status-quo bias, can also be viewed as bias resulting from an ongoing commitment. For example, individuals sometimes order too much food and then over-eat ‘just to get their money’s worth.’ Similarly, a person may have a \$20 ticket to a concert and then drive for hours through a blizzard, just because s/he feels that s/he has to attend due to having made the initial investment. If the costs outweigh the benefits, the extra costs incurred (inconvenience, time or even money) are held in a different mental account than the one associated with the ticket transaction.

The key to professor Shaffer and Richards’ mistake is that the sunk costs of Site C have actually been spent. The funds can’t be recovered. Even when the \$9-billion-plus cost of Site C are reduced by the costs already spent, the project still can’t compete with more modern technologies.

Second, following a good objective with poorly thought-out methods for achieving the objectives misses the point. Terminating Site C provides B.C. with a \$2-billion to \$4-billion dividend.

Site C is significantly more costly than existing alternatives (about \$1,000 for every adult in B.C.) like wind, solar and geothermal. Site C is also more expensive than renewables in all of the areas surrounding B.C. — not just here.

If the prudent goal is to subsidize Alberta’s shift away from coal, the best approach would be to build wind, geothermal and solar projects in Alberta. This would avoid building transmission lines to get the expensive Site C power to Alberta. Even better, B.C. could build the renewable projects and sell the output to utilities in Alberta — achieving two good objectives — preventing global warming and making a profit for B.C. taxpayers.

Paraphrasing Thaler: Throwing good money after bad is a bad idea. Throwing good money after bad in order to subsidize your neighbour might be even worse.

If, as we have discovered in the course of the Site C Inquiry, renewables are much-less costly than Site C, building Site C to help reduce greenhouse gases in Alberta is a much more expensive alternative than simply building renewables in Alberta.

Let's go ahead to seize the massive Site C termination dividend now, while there is still time, and then discuss how to apply the dividend prudently — in B.C.

Robert McCullough is principal of McCullough Research in Portland, Ore., and has advised governments, utilities and Aboriginal groups on energy, metals, paper and chemical issues.

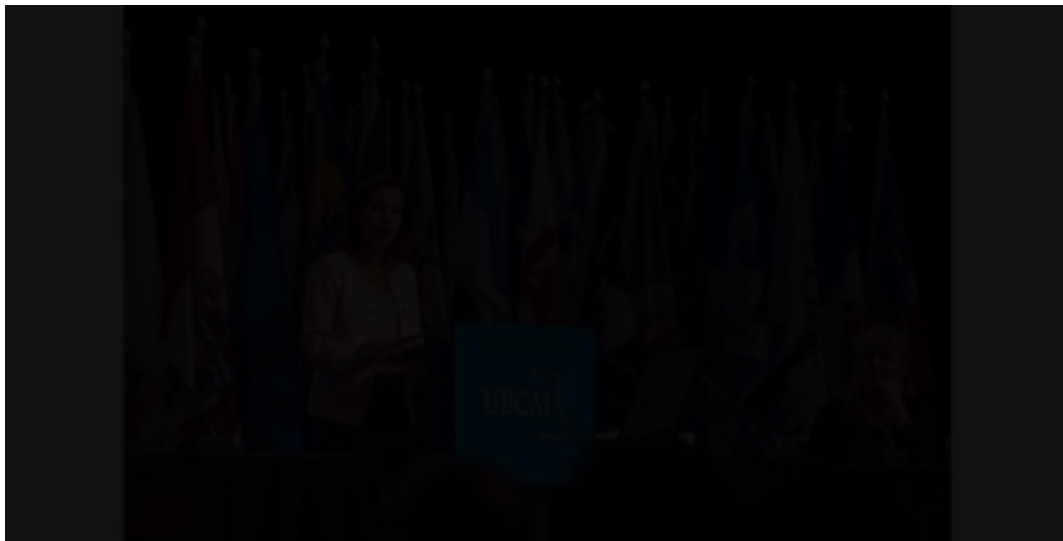
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