

BC Utilities Commission – Site C Review Panel
Vancouver, BC

October 18, 2017

Comment on the Alternatives Portfolio

Sirs/Madam:

One of the oddities of BC Hydro's proposal for the Site C dam is the absence of pro-forma estimates of its impact on electricity rates. On Saturday last (October 14th), this subject was raised by Dr. Swain, who presented a scenario in which the combination of Site C, DSM, price elasticity and debt and deferral account reductions to industry-standard levels lead to rate increases of over 100% in the 2017-2037 interval. The topic of future rates was again broached by Chairman Morton in BC Hydro's presentation on Oct. 14th – below is the text of that exchange.

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BCUC Site C Panel Inquiry – 2017. Vancouver Expert Hearings, Saturday, Oct 14, 2017. Excerpt from presentation by Chris O'Riley, President and COO, BC Hydro.

David Morton, CEO, BCUC — Mr. O'Riley ; You may be getting to this and, if you are, then please continue, but I've looked at a lot of the 60 different scenarios. I've not seen a scenario that shows the ratepayer impact of Site C if it is completed on time and on budget. Is that one of the scenarios that has been provided either in the application or any other form? Well this does seem to be a comparison to something.

Randy Reimann, Director, Resource Planning, BC Hydro — So that's correct. We currently forecast detailed retail forecasts out to fiscal '24 which is one of the reasons we focused on differential rate impacts in our analysis. That tends to be one of the more easy way to compare alternatives. We have done for previous proceedings of the joint review panel, and we've updated the analysis for this proceeding as to what the impact of Site C is itself. So what will happen to rates the year it comes into [service] in the fall of ... so this is not a differential rate impact. We have 2 scenarios we tend to look at - one as if it is not smoothed out, it just occurs as a full cost recovery at the time it is incurred, and another scenario where it is smoothed out over a period of 10 years from initial rate impact using regulatory accounts.

Using the smoothing option, what you would see at Site C would be a 0.5% rate increase in fiscal 2025, followed by 0.5% further rate increase in fiscal 26, and then roughly flat rates for rest of the 10 year period. After that 10 year period is over, we expect the cost of Site C to be below the revenue we will be receiving from customers at that time, and we would expect the rates to immediately drop down to 2% below where they are today but it would be at that time, and that gap would expand over time as Site C cost decrease. *If we don't smooth it, we see an initial rate impact of roughly 5% in fiscal '25 and that would gradually decline to that same 2% after roughly 10 years and then continue to decline after that.*

Chris O'Riley [interrupting Reimann to respond to Chair Morton's question] — we could certainly provide that in writing if that is the request,

Chairman Morton — I think it would be helpful

Chris O'Riley —yes absolutely.

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The problem with the 5% one-time (unsmoothed) rate increase forecast is the combination of assumptions that would precipitate such a result. Those would include:

- Never repaying the \$9 Billion debt incurred for building Site C;
- A 2% interest rate prevailing over all of the dam's 70-year life;
- An assumption that all of Site C's energy would be sold to domestic customers at retail rates in the same sectoral proportions as currently prevail;
- No debt-reduction or normalization of deferral accounts and;
- No dividends or investment returns to Government.

Quite apart from suggesting that those assumptions are quite unlikely (and unfair to future generations of ratepayers), I have done the math while assuming them to be the basis of BC Hydro's estimate. In even the simplest 70-year calculation, that combination of assumptions results in interest charges of \$12.6 Billion and Operations & Maintenance charges of \$7.1 Billion (at 1.12% p.a.) charged to the project.

The resulting \$19.7 Billion expense, spread over all roughly 2 million domestic accounts over 70 years, would require a permanent hike of 6.1% (\$142 p.a. on average) in current rates to pay for the project. At a less-improbable 4% borrowing rate, it would be 10.1% (\$232 p.a. on average). Those are significantly more than BC Hydro's 5% number.

Were all Site C charges to be absorbed only by the 1.78 million Residential accounts, the calculated rate uptick in their current rates would be 14% (\$158 p.a.) and 23% (\$259 p.a.) for the 2% and 4% borrowing cost scenarios, respectively.

I look forward to seeing BC Hydro's promised in-writing rate effect of Site C, with, I hope, the underlying assumptions clearly indicated.

Yours very truly



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