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BCUC INQUIRY RESPECTING SITE C

F 189-1

Date: September 27, 2017

Subject: Site C

I want to express my appreciation for the way you conducted the public input meeting on September 24th.

I also want to draw attention to some facts which can be easily overlooked:

I am assuming that the construction period will be about 9 years and that the total cost will be about \$9 billion. In other words there will be no cost overruns and the project will be finished on time.

1) For 9 years BC Hydro will have to borrow approximately \$ 1billion a year and pay interest on that \$ 1 billion. If Hydro can borrow money at 2% the interest obligations will add up to \$ 900 million. In addition, Hydro will have to borrow the interest it has to pay, so there will be interest on interest, but for the sake of simplicity I will ignore that.

If Hydro has to pay 3% on borrowed money, another \$ 450 million will have to be added to the \$ 900 million mentioned above, and if the interest rate is 4% the \$900 million will have to be doubled.

The question that needs to be answered is : DOES THE \$ 9 BILLION THAT BC HYDRO CLAIMS THE DAM WILL COST INCLUDE OR EXCLUDE THE INTEREST EXPENSE ACCUMULATED DURING 9 YEARS OF CONSTRUCTION ? If it is included, then BC Hydro should state publicly that Site C will cost more than \$ 9 billion if interest rates rise. If it is not included, this interest expense will have to be added and the cost of site C will increase accordingly to more than \$9 billion.

2) It does not appear that an allowance for amortization has been made. If the life expectancy of the dam is 90 years , then it should be written off over 90 years, otherwise 90 years from now we end up with \$ 9billion debt and an asset that is worthless. So \$ 100 million should be set aside each year, and this is very much part of the cost of producing Site C power.

3) There is a misconception among the public that the \$ 9 billion debt will be paid off over the years. The reality is that this debt will never be paid off, just as our public debt is never paid off. When BC Hydro bonds mature, new bonds will be sold to pay off the old ones. So we pass this debt on to future generations, which is ok as long as we pass on worthwhile investments as well. But if we pass on a decommissioned dam along with the debt, we are not acting in the public interest.

4) The cost per kilowatt hour of Site C power will depend almost exclusively on the interest paid on the \$ 9 billion debt. If interest rates are 2%, the yearly interest bill will be \$ 180 million. At 3% it will be \$ 270 million and at 4% it will be \$ 360 million. On top of that \$ 100 million a year for amortization has to be added. If there is no market for Site C power, where will this money come from? BC Hydro will have to borrow it and sink deeper into insolvency, or all Hydro users will have to subsidize this white elephant.

5) One of the most basic rules of investment is not to throw good money after a bad investment. If \$ 2 billion has already been sunk into this bad investment, we should not throw another \$ 7 billion of good money after it. Sound economics dictate that Site C needs to be stopped.

Sincerely,

