

**COST OF SITE C DAM PROJECT SLOWLY EMERGING**

The continuing uncertainty over the cost of the Site C dam project was lessened slightly with B.C. Hydro's recent filing of its latest rate request application to the B.C. Utilities Commission (BCUC).<sup>1</sup> In its three-year rate change request for 2022/23 to 2024/25, the public power utility provided some further detail on the make-up of the \$16 billion estimated project cost, and some of the operating cost detail.

On 25 February 2021, Premier John Horgan and energy minister Bruce Ralston shocked the public by announcing that the Site C project budget had ballooned from \$10.7 billion to \$16.0 billion, making this project the most expensive public works project in the history of the province.<sup>2</sup> No details were released to explain the \$5.3 billion increase in the total project cost.

In May 2021, during the Estimates debate minister Ralston was asked for more details on the new \$16.0 billion project budget for the Site C project, but no specific information was provided. When asked about the reliability of the latest cost estimate Ralston said he was "apprehensive" about the number:

I appreciate the place that the member's question comes from. I too am apprehensive about the budget. I think the member and I share that point of view. It's a legitimate point of view. The public is, to the degree that they focus on this, likely concerned. But what I can say is, as the minister, I've been advised and I am convinced that Hydro is committed to completing the Site C project in the most prudent and efficient way possible.<sup>3</sup>

**New Capital Cost Detail Released**

In its three-year rate application (page 6-122) B.C. Hydro has now released further detail concerning the components of the \$16.0 Site C budget compared to the previous forecast. The following table is from the request.

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<sup>1</sup> [https://www.bcuc.com/Documents/Proceedings/2021/DOC\\_64005\\_B-2-BCH-F23-F25-RRA-public.pdf](https://www.bcuc.com/Documents/Proceedings/2021/DOC_64005_B-2-BCH-F23-F25-RRA-public.pdf)

<sup>2</sup> <https://www.cbc.ca/news/canada/british-columbia/site-c-announcement-friday-1.5928719> They also announced that completion would be delayed by one year until 2025.

<sup>3</sup> <https://www.leg.bc.ca/content/hansard/42nd2nd/20210519pm-Hansard-n75.pdf> p. 2120.

**Table 6-57 Previous Project Budget compared to Revised Project Budget (\$ millions)**

Description	Previous Budget	Revised Project Budget	Change
Dam, Power Facilities and Associated Structures and Transmission (Note 1)	4,548	8,258	3,710
Offsite Works, Direct Construction Supervision and Site Services (Note 2)	1,845	2,895	1,050
<b>Total Direct Construction Cost</b>	<b>6,393</b>	<b>11,153</b>	<b>4,760</b>
Indirect Costs (Note 3)	1,456	2,082	626
<b>Total Construction and Indirect Costs</b>	<b>7,849</b>	<b>13,235</b>	<b>5,386</b>
Interest During Construction	1,285	2,028	743
Contingency / Reserve	1,566	737	(829)
<b>Total</b>	<b>10,700</b>	<b>16,000</b>	<b>5,300</b>

Note 1: Key items included are river diversion infrastructure, earthfill dam and related works, spillways, powerhouse, generation equipment and transmission and substation work.

Note 2: Key items included are highway re-alignment and reservoir related work, direct construction supervision, and site services such as workers accommodation.

Note 3: Key items included are mitigation and compensation programs, development and regulatory costs, project management, engineering and other support services such as project controls, contracts management, environmental, and Indigenous relations.

## When Will the Dam Become Operational?

B.C. Hydro states that the first generating unit will go into service in December 2024, with the second unit following in February, 2025. In fiscal year 2024/25 there will be two generating units in operation plus 75% of the “auxiliary units” which include the Southbank sub-station. Full operation of all six generating units will occur by November 2025.<sup>4</sup>

## Impact on Annual Rates

The in-service date is important as this is the start point for determining the annual amortization and depreciation cost. The combined amortization and depreciation cost, combined with annual operating expenditures, will add significant pressures on customer rates unless offset by additional sales. Two key components of the amortization cost are the interest rate for the new debt (all of the Site C project expenditures are being borrowed) and the number of years of amortization. Assuming the cost of borrowing was 3.6%,<sup>5</sup> and the amortization period was 70 years, the annual cost to pay the principal and interest on the \$16.0 billion would be approximately \$625

<sup>4</sup> [https://www.bcuc.com/Documents/Proceedings/2021/DOC\\_64005\\_B-2-BCH-F23-F25-RRA-public.pdf](https://www.bcuc.com/Documents/Proceedings/2021/DOC_64005_B-2-BCH-F23-F25-RRA-public.pdf) Pdf 948/1079.

<sup>5</sup> This is the weighted average interest rate of 2020/21; <https://www.bchydro.com/content/dam/BCHydro/customer-portal/documents/corporate/accountability-reports/financial-reports/annual-reports/bchydro-annual-service-plan-report-2020-2021.pdf> p. 87.

million. Using an 84 year amortization would result in an annual cost of approximately \$605 million (B.C. Hydro has suggested that the \$540 million in the Site C regulatory account be paid off over 84 years, which it says is the expected useful life of the Site C assets<sup>6</sup>).

It is unclear whether B.C. Hydro's estimate includes any possible compensation for violations of Treaty 8 rights, or other related costs. B.C. Hydro has forecast operating costs of \$11 million (26.8 FTEs) for fiscal 2024/25. This will increase with a full year of operation, and the cost of water rentals paid to the provincial government.

### **Full Analysis of Rate Impact Not Available**

A full analysis of the impact of the Site C dam project on B.C. Hydro's annual expenditures is not yet available. Information has been slowly entering the public domain, but definitive forecasts on the impact on rates have been absent.<sup>7</sup> Certainly, B.C. Hydro is forecasting that it will have surplus generating capacity in the next few years. This means that ratepayers must cover the losses.

The new three-year rate request contains some information, but the term of the request (the test period) ends on 31 March 2025, which is well before all the generating units are expected to come online. We must wait perhaps for another two years before B.C. Hydro files its next rate application with the BCUC to learn what the short and medium term impact on customer rates will be.

It is possible that the BCUC may initiate a separate review of the impact of the Site C project on rates well before the next general filing date. This would benefit all users and enhance public accountability.

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The writer is a retired senior BC government public servant whose paper describing the BC government's manipulation of the finances of BC Hydro from 2008 to 2014 was published by *BC Studies* in November 2016. *BC Studies* published his paper on the 40-year financial history of ICBC in 2013. He is an intervener in the BC Utilities Commission's recent reviews of ICBC's and B.C. Hydro's rate requests.

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<sup>6</sup> Ibid. Pdf 974/1079. On May 19, 2021, Minister Ralston stated... "the costs would be recovered over the life of the asset. Typically, they say 70 years, but the estimated life of the project is 100 years. But who knows? I don't think any of us will be here then." <https://www.leg.bc.ca/content/hansard/42nd2nd/20210519pm-Hansard-n75.pdf>

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