

**Site C Review - Responses to questions raised by Deloitte
August 24, 2017**

CONFIDENTIAL

No.											
174A	Date/Source of Question: Email from [REDACTED] to [REDACTED] on August 24, 2017 at 7:30pm										
	Response provided by: [REDACTED]										
	Functional Approver: [REDACTED]										
	<p>Question: We have a follow-up question to #174.</p> <p><u>Suspension scenario</u> Assuming that construction resumes in 2025 and the cost-to-date would not get written off, what would be the incremental IDC costs on the project under a 7 year suspension scenario? We are looking for the incremental IDC cost impact over and above the amount set aside in the control budget. Can we get summary of the calculation?</p>										
	<p>Response:</p> <p>Note that, as per BC Hydro’s previous response, we do not believe accounting rules will allow for the costs-to-date to remain in a capital account for the period of suspension. If costs were not written-off entirely they would have to be held in a regulatory account.</p> <p>If costs to date were placed into a regulatory account (we have proposed using the existing Site C Regulatory Account) starting on December 31, 2017, they would not accrue IDC. As per our response, however, they would attract interest at our weighted average cost of debt (which is equivalent).</p> <p>For our suspension calculation, we have estimated that the amount that would be placed into the Site C Regulatory Account on December 31, 2017 is \$3.0 billion. This is a combination of costs to date, costs already in the regulatory account, the sum of suspension-related costs to be incurred over a number of years. A further approximately \$0.2 to \$0.3 billion of maintenance costs (to maintain the site from safety, environmental and other perspectives such that work could resume later) would not be added to be Site C Regulatory Account immediately, but rather would be added as incurred during the period of suspension. This would mean a grand total of approximately \$3.2 billion. This is an estimate only and we are still working through the calculation and some of these mechanics – as a result this number may change.</p> <p>The weighted average cost of debt (i.e., the rate of interest that would accrue on the regulatory account balance) is as follows:</p> <table data-bbox="228 1717 730 1892"> <tr> <td>F18</td> <td>3.93%</td> </tr> <tr> <td>F19</td> <td>3.83%</td> </tr> <tr> <td>F20</td> <td>3.78%</td> </tr> <tr> <td>F21</td> <td>3.66%</td> </tr> <tr> <td>F22 and subsequent years</td> <td>3.43%</td> </tr> </table> <p>At the end of 7 years, the \$3.2 billion would grow to approximately \$4.1 billion, meaning that the</p>	F18	3.93%	F19	3.83%	F20	3.78%	F21	3.66%	F22 and subsequent years	3.43%
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interest costs were the delta (i.e., approximately \$0.9 billion). Note also that this is an approximation as our fiscal years don't exactly overlap with this scenario so it's a bit messy. We have applied interest only to the part of the balance that relates to funds already expended. In other words, the suspension-related and maintenance costs are not expended at the assumed timing of a decision to suspend (i.e., December 31, 2017). In our model, we calculate interest on those amounts in the Site C Regulatory Account over time as they are incurred.

Note that were construction to resume at that point (i.e., after 7 years) the costs in the Site C Regulatory Account (i.e., the approximate balance of \$4.1 billion) would continue to attract interest until the Project completed (i.e., a number of additional years depending on how long after the 7 years in your scenario it takes to complete construction).