Name: Ken Boon

Organization: PVLA and PVEA

Date: October 02, 2017

Subject: The BCUC and the BC Cabinet must ignore the $2.1 Billion Sunk Cost when Considering Site C's Future

This report has been prepared by McCullough Research for the ***Peace Valley Landowner Association (PVLA)*** *and the* ***Peace Valley Environment Association (PVEA)****.*

Site C Expert Report:

The BCUC and the BC Cabinet must ignore the $2.1 Billion Sunk Cost when Considering Site C's Future

Fort St. John, B.C. - September 29, 2017 - Yesterday, the Peace Valley Landowner Association (PVLA) and the Peace Valley Environment Association (PVEA) filed one in a series of McCullough Research expert reports with the BCUC's Site C Inquiry.

In the report, energy expert Robert McCullough addresses one of the main arguments made for continuing Site C: the fact BC Hydro has already sunk about $2.1 billion into the project.

“This reasoning is known as the the sunk cost fallacy and fails to acknowledge that the dollars already spent cannot be recovered regardless of the outcome," said Robert McCullough. "Sunk costs are never considered in economic decisions, because these costs are fixed, regardless of what decision is made. In the case of Site C, British Columbia Hydro has spent approximately a fifth of the $9 billion dollars needed to build the hydroelectric project. The dollars are spent and cannot be recovered whether the dam is completed or not. Part or all of the remainder – approximately $7 billion dollars – *can* be saved if a less expensive alternative is selected."

“There is simply no good reason to throw good money after bad," said PVLA President Ken Boon.

McCullough Research

Date: September 28, 2017

To: British Columbia Utilities Commission

From: Robert McCullough, Eric Shierman, Robby Gottesman

Subject: Question 58 - The Sunk Cost Fallacy

The following is an excerpt from the report:

Question 58 in the preliminary report appears to suggest that sunk costs are a consideration and ought to be included in an assessment of the cost of terminating Site C and replacing Site C with a portfolio of renewables.

It is well accepted that sunk costs are not considered in such decisions.

A sunk cost is a past expenditure that cannot be recovered. Economic theory states that sunk costs are never considered in economic decisions, because these costs are fixed, regardless of what decision is made. The famous professor and jurist, retired U.S. Appeals Judge Richard A. Posner, commented in his study of the economics of law:

We commit the "sunk costs" fallacy, or throwing good money after bad. That is, in making decisions, we frequently ignore the adage of letting bygones be bygones; we are unable to ignore costs that, having already been incurred, cannot be altered by the decision.[1]

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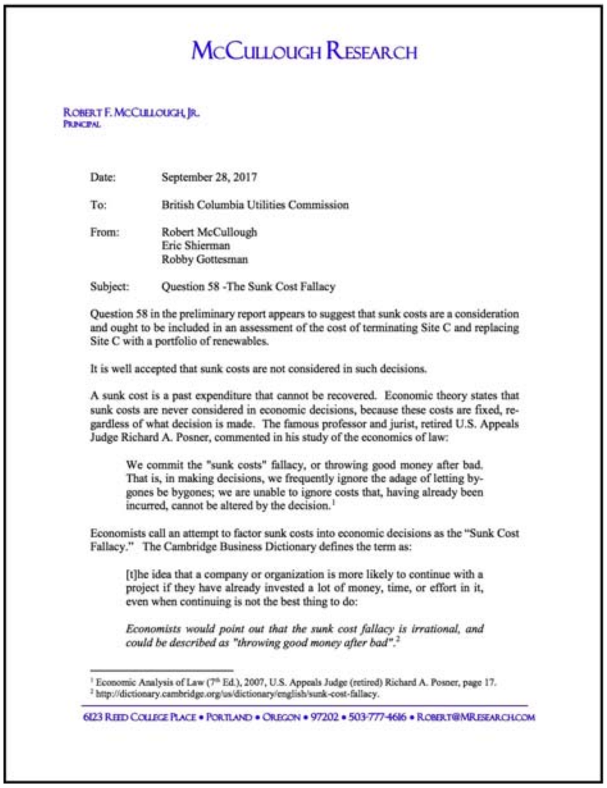
[1] Economic Analysis of Law (7th Ed.), 2007, U.S. Appeals Judge (retired) Richard A. Posner, page 17.

Click the image below to download the unabridged report (3 pages):



McCULLOUGH RESEARCH

ROBERT F. McCULLOUGH, JR.
PRINCIPAL

Date: September 28, 2017

To: British Columbia Utilities Commission

From: Robert McCullough
Eric Shierman
Robby Gottesman

Subject: Question 58 -The Sunk Cost Fallacy

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Economists call an attempt to factor sunk costs into economic decisions as the "Sunk Cost Fallacy." The Cambridge Business Dictionary defines the term as:

> [t]he idea that a company or organization is more likely to continue with a project if they have already invested a lot of money, time, or effort in it, even when continuing is not the best thing to do:
>
> *Economists would point out that the sunk cost fallacy is irrational, and could be described as "throwing good money after bad".*[2]

[1] Economic Analysis of Law (7th Ed.), 2007, U.S. Appeals Judge (retired) Richard A. Posner, page 17.
[2] http://dictionary.cambridge.org/us/dictionary/english/sunk-cost-fallacy.

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To download the full McCullough Report, and to read all other expert reports submitted by PVLA and PVEA to the BCUC Site C Inquiry, please visit: www.peacevalleyland.com/sitecinquiry.

Robert McCullough is Principal of McCullough Research in Portland, OR, and for over thirty-seven years has advised governments, utilities, and aboriginal groups on energy, metals, paper, and chemical issues. He has testified repeatedly in state, federal, and provincial courts as well as before Congress and regulatory bodies. His testimony in front of the Senate Energy Committee is credited with initiating the Enron trading investigations during which he worked for the U.S. Department of Justice and three western attorney generals. He has consulted for U.S. and Canadian clients on hydroelectric issues in many states and provinces, including on many occasions, presenting on issues before Canadian regulators.

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