



COMMISSION OF INQUIRY RESPECTING THE MUSKRAT FALLS PROJECT

Transcript | Phase 1

Volume 32

Commissioner: Honourable Justice Richard LeBlanc

Monday

5 November 2018

CLERK (Mulrooney): All rise.

This Commission of Inquiry is now open.

The Honourable Justice Richard LeBlanc
presiding as Commissioner.

Please be seated.

THE COMMISSIONER: Good morning.

Mr. Learmonth?

MR. LEARMONTH: Thank you.

The first witness today will be Dr. Stephen Bruneau. He has given his examination in chief, and he'll now be cross-examined by the other counsel.

THE COMMISSIONER: Okay.

MR. LEARMONTH: Before the cross-examination begins, I would like to ask that Exhibit P-00996 be entered as an exhibit.

THE COMMISSIONER: All right, P-00996 is entered as numbered.

Mr. Bruneau, if you can stand, please.

I believe you were sworn on the last occasion. Take the Bible in your right hand, please.

CLERK: Do you swear that the evidence you shall give to this Inquiry shall be the truth, the whole truth and nothing but the truth, so help you God?

DR. BRUNEAU: I do.

CLERK: Please state your name for the record.

DR. BRUNEAU: Stephen Bruneau.

CLERK: Thank you.

THE COMMISSIONER: All right, so when we finished, you were – you had completed your direct evidence and there was an issue raised about notes that you had used that had not been disclosed, so I gave the parties an opportunity to review those, and we now have you back. I appreciate you coming back, Mr. Bruneau.

So, first of all, the Province of Newfoundland and Labrador.

MR. RALPH: Good morning, Dr. Bruneau.

DR. BRUNEAU: Good morning.

MR. RALPH: My name is Peter Ralph, I represent the Government of Newfoundland and Labrador, and I just have a few questions this morning for you, none of which address, I guess, the primary substance of your testimony the last day about the use of natural gas and the generation of electricity.

My questions will address some of the statements you made during your testimony on October the 5 regarding the provincial Energy Plan, and I guess development plans in general. And I think it's gonna be – it's be helpful if I read the pertinent section of the Energy Plan of 2007.

It's Exhibit P-00029. I don't think it's in your binder, but you'll be able to see it. Exhibit 00029, page 36 – down further, and it's a section entitled: Landing Natural Gas. Are you familiar with this section?

DR. BRUNEAU: Yes, I am.

MR. RALPH: And that's basically what you relied upon, I think, when you discussed expecting to see the landing in the province, options and development plans, is that correct?

DR. BRUNEAU: Partly.

MR. RALPH: Yes.

Well, it may help a lot if I read the entire section: "Natural gas is in the early stages of development in Newfoundland and Labrador. To succeed, we need to gain a clear understanding of the strategic importance of landing gas in the province. Natural gas can be used in industrial processes such as oil refining, secondary gas processing, petrochemical manufacturing, and in the generation of electricity. All viable options must be fully assessed for the development of our gas resources to ensure they provide an appropriate level of benefits to the province and a fair return to the investor."

“The Provincial Government understands the unique challenges of using this resource within the province, but there are also opportunities. To ensure these opportunities are fully assessed,” – the Province – “the Provincial Government will request that companies provide detailed ‘landing in the province’ options prior to submitting a Development Plan.”

Now, as I understand that section, the plan is addressing the concern that natural gas potentially could be recovered and sent to market without coming to Newfoundland. Is that a fair comment?

DR. BRUNEAU: Could you repeat that, please? Because I – yeah, repeat it.

MR. RALPH: Sure. So, clearly there’s a concern in the plan that companies could recover natural gas, I guess put it in a tanker –

DR. BRUNEAU: Oh, I see, I see.

MR. RALPH: – and send it to market without the province enjoying any sort of secondary benefits from that.

DR. BRUNEAU: That is a correct interpretation, but it’s more than that, if I may say so.

MR. RALPH: Sure, absolutely.

DR. BRUNEAU: The context of the day was that there were proponents looking to try and bring gas to the Island for domestic use and for follow-on export elsewhere. And it was, at that time, unpopular with operators to have others making propositions about their natural gas.

So, I think there was, at that time, comments being made by operators that offshore LNG production might be a viable option, or, in fact, offshore compressed natural gas may be an option. And that comment in the Energy Plan addresses just that point, that if gas were to be processed offshore, we wanna make sure that it does come to Newfoundland as well.

MR. RALPH: Right, so before we give you a production license, in your development plan for the development of natural gas, we want you to tell us, or the C-NLOPB, tell them what options

you’re considering in terms of landing in the province.

DR. BRUNEAU: No, not options. Detailed plans for bringing it to the Island

MR. RALPH: But this is talking about more than one plan. So, basically, they’re saying, what are your – what are the options you’re proposing? And it may be – there may be a favourite option amongst an oil company, but you’re talking (inaudible), and that’s not particularly germane to the point that I’m making.

DR. BRUNEAU: Mm-hmm.

MR. RALPH: I’ll move on to the next question, sure.

Now, I’m gonna go to your transcript from – transcribe your transcript of your evidence October 5, and you reviewed that transcript? You’re familiar with it?

DR. BRUNEAU: I have.

MR. RALPH: Okay, and the first excerpt I’d like to read to you is in on page 4. And it’s in the second column, it starts: Then, as you have pointed out ...

DR. BRUNEAU: Okay.

MR. RALPH: You see that?

DR. BRUNEAU: Yes.

MR. RALPH: “Then, as you have pointed out, the 2007 – so 2005,” 2006 the – “2007 provincial government published its much-anticipated Energy Plan, called *Focusing our Energy*. This plan is, of course, viewed today on the government website or within your document folder there, and is a major guiding document for resource development.

“In that plan, there is an action statement that says that the government will request that all companies provide a detailed assessment for the feasibility and provincial benefits of landing gas in Newfoundland prior to submitting development plan.

“The policy goes further and states that all viable options must be fully assessed for the development of our gas resources for, amongst other things, the generation of electricity. The plan explicitly states that companies will be asked to provide detailed, quote-unquote, landing-in-the-province options when submitting any development plan.”

And before I ask you a question, I’m gonna ask you to go to page 7 of your transcript and where it says – half way down – Dr. Bruneau, and you go: “Yeah, that’s right. The Energy Plan explicitly said it would request detailed assessment of landing gas on the Island, yet these were not referenced in the Navigant report and I have not been able to find them.”

Let me just read that again: “The Energy Plan explicitly said it would request detailed assessment of landing gas on the Island, yet these were not referenced in the Navigant report and I have not been able to find them.” Now, I found the – that statement kind of confusing and it’s for this reason.

As I understand, you went looking in the development plans for landing-in-province options. Is that right?

DR. BRUNEAU: No, I searched the North Amethyst development plan to see if the word pipeline showed up and it didn’t; but the assessments that were going to be given were clearly said to have been requested for before development plans were submitted. That’s what the Energy Plan said, that these plans would be submitted before development plans and none of them were referenced in Navigant or Ziff or publicly, nor were those documents available. So these plans that were to be submitted, I didn’t ever find them.

MR. RALPH: Right. So the plans to be submitted are the plans that are referred to in the Energy Plan, is that right?

DR. BRUNEAU: The plans that their Energy Plan had said that they would be requesting this information and – that’s right, those were the ones I looked for and didn’t find.

MR. RALPH: And it’s confusing because I would suggest that an Energy Plan is not the

kind of document that creates enforceable obligations from an oil company. That it’s a statement of policy and it’s sort of an aspirational document, would you (inaudible) –

DR. BRUNEAU: Is that a question?

MR. RALPH: – appreciate that?

DR. BRUNEAU: I don’t know if that’s the case or not. It’s not my area of expertise to understand what this document – the Energy Plan – was intended to do. Whether it was some guiding policy statement or if it was going to be directives, I don’t know. But the language used was not vague.

MR. RALPH: Right. But I understand you correctly; you thought you should be able to search pipeline in the North Amethyst development plan and find it there because the Energy Plan required it to be done.

DR. BRUNEAU: No. No, I didn’t find any of these reports that were said to be asked for.

MR. RALPH: So where did you look for them?

DR. BRUNEAU: I looked for them on the C-NLOPB website and on the provincial government energy – Natural Resources website.

MR. RALPH: Right. But again, you thought you’d find them because the Energy Plan required them?

DR. BRUNEAU: Yes, that’s right, and –

MR. RALPH: That’s fine.

DR. BRUNEAU: – further – not only that, but Navigant and Ziff were charged specifically with looking at this topic, and it would be incumbent on them to refer to documents of that nature if they existed, and they did not.

MR. RALPH: To your knowledge, has there been a single development plan submitted with the C-NLOPB for the purpose of commercially recovering natural gas?

DR. BRUNEAU: Yes.

MR. RALPH: Who was that?

DR. BRUNEAU: North Atlantic Pipeline Partners

I can clarify to say that our request to develop natural gas – because I was involved in that company 20 years ago – was never accepted. So it may not be on the matter of record. But I can assure you that we met with the C-NLOPB to request permission to do such a thing.

MR. RALPH: Okay. And I'll try to be clearer.

DR. BRUNEAU: Yeah.

MR. RALPH: So was there a development plan –

DR. BRUNEAU: No.

MR. RALPH: – submitted?

DR. BRUNEAU: No, I think –

MR. RALPH: I think that's my question –

DR. BRUNEAU: – the document –

MR. RALPH: – my question is whether –

DR. BRUNEAU: Okay, pardon me. Well, no.

MR. RALPH: So the answer to my question: has there been a development plan submitted with the C-NLOPB with respect to the development – commercial development – of natural gas or the recovery of natural gas on the Grand Banks.

DR. BRUNEAU: I think the confusion there might lie in the word plan. If in fact you're talking about plans, plans have been discussed with the C-NLOPB and they were intended to be submitted. The formal document that is quote, unquote called a development plan was never submitted for that particular effort because we – it wasn't going to be accepted.

MR. RALPH: So it should come as no surprise then really, should there, that there's no landing-in-province options because there's (inaudible) –

DR. BRUNEAU: No, no, no, no.

MR. RALPH: – plan.

DR. BRUNEAU: I'm – sorry. The issue in the Energy Plan was that the province is not only obligated, but interested to know how offshore operators will utilize the resources offshore to the best of the benefit of the people of the province. And it was quite clear at that time that we had a growing energy demand on the island and that there were proponents looking to independently initiate a natural gas industry.

And so I believe that the language in the policy statement there, was to assuage the concerns of people that the operators alone would be left to their own devices to decide when gas would come to shore. Because, you see, gas coming to the Island for just domestic needs is really such a small business proposition to the offshore that they wouldn't independently propose such a thing. But it means so much to us on the Island because of our domestic issues, that the people of the province have a right to ask for these plans, notwithstanding the fact that the companies wouldn't offer them willingly themselves.

MR. RALPH: Right. And perhaps we can go to Exhibit 00996. And I think that's tab 8. And this is the Hebron development plan. I also looked at North Amethyst, and I thought that Hebron seemed to be laid out sort of, clearer, and might be a better document to discuss. So we can go to page 19.

DR. BRUNEAU: Mm-hmm.

MR. RALPH: And at the middle of the page there, the first thing they say is the "Forecasted cumulative oil recovery from these resources after 30 years of producing life ranges ... 150 Mm³ ... to 168 Mm³."

DR. BRUNEAU: Mm-hmm.

MR. RALPH: And then – if we go down then, "The formation" – of – "gas produced in association with oil production will be used principally to meet the fuel requirements for the production and drilling facilities."

Now you talked about that last day, on October the 5th when you testified about the uses to be made of it. And if we can keep going down to

the bottom of the paragraph here, “The gas management plan takes into account a number of considerations.” And it outlines six or seven. If we can go to the next page, it says – the last one – is the “Potential for future commercial gas production.”

So in their development plan, they’re saying, this – we’re managing gas in this regard. We’re gonna use it for some purposes in terms of production, we’re gonna store some of it, we’ll have to burn some of it off, and we’re managing it in a manner which keeps into consideration the future development of this – for this resource for a commercial purpose.

And is that what that says, do you think? Am I interpreting that correctly?

DR. BRUNEAU: Are you asking me to comment about –

MR. RALPH: Yes.

DR. BRUNEAU: – the gas strategy for Hebron?

MR. RALPH: No, I’m asking you if my interpretation of what they’re saying is correct.

DR. BRUNEAU: I don’t know if your interpretation is correct, but what I can tell you my interpretation of that is.

MR. RALPH: Go ahead.

DR. BRUNEAU: I think it’s quite optimistic. First of all, Hebron was never mentioned because it’s always been known by anyone in the industry that Hebron doesn’t have surplus gas, such as White Rose or Hibernia.

MR. RALPH: Right.

DR. BRUNEAU: So that’s why it was not referred to –

MR. RALPH: Sure.

DR. BRUNEAU: – in my documents.

MR. RALPH: But I’d suggest to you that every –

DR. BRUNEAU: Mm-hmmm

MR. RALPH: – development plan deals with gas in a similar fashion.

DR. BRUNEAU: (Inaudible.)

MR. RALPH: Whether it’s North Amethyst or any other development plan.

DR. BRUNEAU: I fail to see the point. This document addresses in no way, landing gas on the island. You see, there’s a difference –

MR. RALPH: Can I tell you the point then and –

DR. BRUNEAU: Yeah.

MR. RALPH: – then you can comment this. I mean the point is, that you said that there should be these plans around these landing-in-province options –

DR. BRUNEAU: Yes.

MR. RALPH: – attached to development plans. But there are no development plans with regard to natural gas. So why would you expect to see them?

DR. BRUNEAU: I don’t interpret what you’re saying, or your conclusions, the same way. My conclusion is that the policy is saying to the operators: if there was a market for natural gas on the island, we would like to know how you would bring that gas to shore and how much it would cost.

MR. RALPH: Right.

DR. BRUNEAU: Okay?

DR. BRUNEAU: And –

MR. RALPH: I think we’re saying the same thing.

DR. BRUNEAU: Yeah and they didn’t do that.

MR. RALPH: No, but they haven’t got to that point of filing a development plan with regard to natural gas yet.

DR. BRUNEAU: No, no. No, this is asked to – before a development plan is submitted to the

government to develop the resources offshore, they must describe how gas may be landed on the Island.

MR. RALPH: Pursuant to the Energy Plan.

DR. BRUNEAU: Pardon me?

MR. RALPH: Pursuant to the Energy Plan.

DR. BRUNEAU: Pursuant to the development plan for that facility. And I would finish this by saying that Hebron points out here fortunately, and you've drawn attention to this fact, and that is that their platform is evidently designed to be able to go after gas, process gas and push gas away. It's already built into the platform according to what you've pointed out here.

MR. RALPH: Yes.

DR. BRUNEAU: Now, to me, that's the best analogy that represents to us what we could have done. We would –

MR. RALPH: Thank you. Those are my questions, Dr. Bruneau.

DR. BRUNEAU: Okay, thank you.

THE COMMISSIONER: All right, Nalcor Energy?

MR. SIMMONS: Good morning, Dr. Bruneau.

DR. BRUNEAU: Good morning.

MR. SIMMONS: I'm Dan Simmons for Nalcor Energy.

It's been a month since you were here. You were here on October 5 and we're a month later. When you were here before you used a set of speaking notes, 15, 16 pages or so, for the presentation of your main evidence.

And I just wanted to clarify; you weren't retained by the Commission to do any particular analysis in the form of an expert retained to come here to give evidence. Correct?

DR. BRUNEAU: You're correct.

MR. SIMMONS: Correct, yes.

So those speaking notes, were they your own initiative in order to assist you with presenting your evidence, or had they been requested by Commission counsel for you to prepare those for your testimony?

DR. BRUNEAU: My own initiative.

MR. SIMMONS: It was your own initiative, okay, very good.

In describing your background you told us that back in – from 1997 to 2002 you'd been involved in North Atlantic Pipeline Partners, which you mentioned just a few minutes ago here. What was your position with that company?

DR. BRUNEAU: I was the manager of Newfoundland operations.

MR. SIMMONS: Okay.

And what was the business that that company was in.

DR. BRUNEAU: The business – there were several efforts and it changed over time as we were discouraged by some things and encouraged by others. But, principally, it was to try and initiate natural gas industry on the East Coast of Canada.

MR. SIMMONS: Mm-hmm.

DR. BRUNEAU: It began as an application to challenge the Maritimes Northeast Pipeline initiative in – that takes gas from Sable offshore Nova Scotia –

MR. SIMMONS: Mm-hmm.

DR. BRUNEAU: – to Maine. And the company that I worked for was putting forward an application to FERC and the National Energy Board, that that pipeline restricted Newfoundland's access. And that instead, an offshore pipeline that was larger and came from Seabrook in the States, up to Millboro and Sable, and then on to Newfoundland and the Grand Banks, would open up the market for operators offshore and we were proposing to build such a pipeline.

MR. SIMMONS: Yeah.

And by 2002 when you left, did North Atlantic Pipeline Partners continue to operate in any substantive way after that, or was that kind of the end of its run?

DR. BRUNEAU: It was the end of my run with it, but it had clearly faded.

MR. SIMMONS: Mm-hmm.

Had there been any success with North Atlantic Pipeline Partners in trying to interest either oil companies or governments, or any proponents, in the ideas that your company had for the development of natural gas in the offshore on the Grand Banks?

DR. BRUNEAU: How much time do you have? It was an interesting time.

MR. SIMMONS: Well, the answer could be yes or no, or ...

DR. BRUNEAU: It could be. But to give an answer that makes sense, I think that the effort served to polarize the industry and what people here thought about natural gas.

MR. SIMMONS: Mm-hmm.

DR. BRUNEAU: It aggregated the offshore operators essentially against the idea at that time. Things have changed somewhat now since, but it aggregated them and it also inspired some political will to try and make it happen.

MR. SIMMONS: Now that's 2002, it's 16 years ago now.

DR. BRUNEAU: Mm-hmm.

MR. SIMMONS: And we haven't seen anything happen with actually development of any natural gas resources offshore. It's something that you were involved in promoting for five years of your life back then. I'm just interested if you have any views as to why it's never happened, why we've never seen it in that time –

DR. BRUNEAU: Well, first of all –

MR. SIMMONS: – because it's 16 years.

DR. BRUNEAU: – the right thing doesn't always happen.

MR. SIMMONS: Mm-hmm.

DR. BRUNEAU: And we often don't know until after the mistake is made. I can assure you very much that the Sable and Maritimes Northeast Pipeline have happened. You said they haven't, but they have. But what they have done as well is they've throttled Newfoundland so that it makes it much more difficult for us to get to market.

The other thing that happened was that those initiatives, I believe, gave rise to the commissioning of studies that the provincial government took on. And I think a fair bit of the language inserted in that Energy Plan came out of the spirit of what was being attempted at that time.

MR. SIMMONS: One of the studies you referred to was the Pan Maritime Kenny report that was done back in 2001. And that's P-00088, so maybe we can bring it up. I don't think it's in the binder that you've got there.

DR. BRUNEAU: That's okay, I know it.

MR. SIMMONS: So that's –

THE COMMISSIONER: What number, again, Mr. –?

MR. SIMMONS: P-00088.

THE COMMISSIONER: P-00088.

MR. SIMMONS: So that's a study I think that you'd be familiar with it. It's commissioned by the province and – 2001, that was while you were still with North Atlantic Pipeline Partners.

So, was that study part of this debate or discussion around this issue –

DR. BRUNEAU: Oh –

MR. SIMMONS: – that was underway back then?

DR. BRUNEAU: – it sure was.

MR. SIMMONS: Yes.

DR. BRUNEAU: But it was a disappointment, somewhat, in the way that the question was framed –

MR. SIMMONS: Mm-hmm.

DR. BRUNEAU: – disappointment to some of us, but at the same time it was very much – because in fact it was part two of a two-part doc.; the other part isn't there. But there was, at that time, a proposition that gas would be compressed or liquefied offshore and moved about. And this was, in my view, an effort on behalf of the operators to distract the province from the reality of how gas would be moved from offshore, because there are no such developments – at that time there were no such developments anywhere in the world. It was entirely unlikely that it would actually happen – the compressed natural gas – offshore Newfoundland, and of course it hasn't.

And liquefying natural gas offshore is something that has finally been initiated off the coast of Australia, but it's a long shot from such a harsh environment here. There's no one in the industry who would believe, if asked, that gas would come to shore any way other than a pipeline here.

MR. SIMMONS: And this report that you referred to, the one at P-00088, it's there on the screen now. And just the title of it: Technical Feasibility of Offshore Natural Gas and Gas Liquid Development Based on a Submarine Pipeline Transportation System.

DR. BRUNEAU: Right.

MR. SIMMONS: So the report was actually looking at the very thing that your company at the time, I think, was promoting, which was transportation – bringing gas onshore via a submarine or ocean-floor pipeline?

DR. BRUNEAU: Partially.

MR. SIMMONS: Mm-hmm.

DR. BRUNEAU: The qualification of that is that this study was looking at the aggregation of all the natural gas offshore and how to get that to market.

MR. SIMMONS: Mm-hmm.

DR. BRUNEAU: Our company was partly involved in that, but by that time we had lost our application against National Energy Board and FERC, and the result was that we were no longer looking at getting industry-wide gas to the northeast market. What we were looking at then was bringing natural gas to the Island of Newfoundland –

MR. SIMMONS: Yes.

DR. BRUNEAU: – a very different proposition.

MR. SIMMONS: Right.

DR. BRUNEAU: It's not – it has no scale relationship to what was discussed in this document.

MR. SIMMONS: Okay.

Well, I'll just bring you to page 6 of the report, please. Just a couple things I'll get you to comment on before we –

DR. BRUNEAU: I actually –

MR. SIMMONS: – move on.

DR. BRUNEAU: – don't have the report, but I know it.

MR. SIMMONS: Well, you'll get it on the screen there –

DR. BRUNEAU: Oh, okay.

MR. SIMMONS: – now.

And I know it's often – it's very difficult to just be brought to little bits and pieces of reports that you probably haven't looked at for a long time, so if you're not comfortable commenting on it, that's fine.

This is page 6. Oh, here we go. Mr. Learmonth has provided us with a copy.

So, on page 6, there's a paragraph there that says: The principal conclusions for this study are as follows. And this is from the Executive Summary section of the report. And there's just two of them I want to bring your – bring to your attention.

So the first one is the very first bullet. And so in this study it was concluded that, "The natural gas resources defined in this study are economic to develop using an export pipeline to Eastern Canada and the US even with a reasonably conservative (low) commodity pricing scenario."

So put yourself back in 2001 when this came out now. Is this a conclusion that at the time you agreed with or supported?

DR. BRUNEAU: Did you say that it is?

MR. SIMMONS: It says it is. "The natural gas resources defined in this study are economic to develop using an export pipeline to Eastern Canada and the US even with a reasonably conservative (low) commodity pricing scenario." And if you can't recall, you know, I'm just wondering if you –

DR. BRUNEAU: No.

MR. SIMMONS: – at the time what your –

DR. BRUNEAU: I think that –

MR. SIMMONS: – view was on that.

DR. BRUNEAU: – that's – that is a statement there, but the context of the whole document, my recollection was that it was probably best to wait until 2015.

MR. SIMMONS: Mm-hmm. Okay.

And bring you down to the fifth bullet. These aren't numbered so you have to count down. And it's the one that begins: Delivery of gas for domestic use. And it says: "Delivery of gas for domestic use for power generation, industrial, commercial, and residential is not economically feasible without integral development for delivery to Eastern Canada and the US." And it goes on to say: due to the small size of the potential domestic market, high unit cost and so on.

So those two conclusions read together seem to suggest that at the time Pan Maritime Kenny concluded that if it's part of a larger development, there's an economic case for it. If we're only bringing it to the Island of Newfoundland, there's not.

Do you recall that being the outcome of this study at the time? Or are we going back too far now (inaudible)?

DR. BRUNEAU: No, no. That's a fair interpretation. There's no doubt about it. I believe that that was their conclusion –

MR. SIMMONS: Mm-hmm.

DR. BRUNEAU: – in 2001, that they didn't feel that gas – that a pipeline that would carry 700 million standard cubic feet of gas a day could be justified on the demand of the Island. And I would agree with that.

MR. SIMMONS: So, then, in 2002 you left North Atlantic Pipeline Partners. I think by 2005 you'd joined the faculty at Memorial –

DR. BRUNEAU: Yes, at the end of '05. That's right.

MR. SIMMONS: – over working at C-CORE. You were on faculty then too?

DR. BRUNEAU: Yeah.

MR. SIMMONS: And you've told us that you did a couple of presentations in 2005 and 2006: one to Noia, which I think is the –

DR. BRUNEAU: Right.

MR. SIMMONS: – offshore industry association, and the next year to N-E-I-A. Is that the Newfoundland environmental industries association?

DR. BRUNEAU: Yes. Yes, that's right.

MR. SIMMONS: Okay.

Titles of both of them are in the speaking notes that you prepared. And did they both address this idea of bringing gas onshore for use for

generation of electricity for domestic consumption on the Island?

DR. BRUNEAU: Yes.

MR. SIMMONS: It's really the same idea that you brought forward in 2012 when you made your submission to the PUB and then your Harris Centre presentation.

DR. BRUNEAU: That's correct.

MR. SIMMONS: Yeah. And did you put forward, kind of a similar case back in 2005, 2006 that you did in 2012? Maybe more developed in 2012, but the idea was similar, was it?

DR. BRUNEAU: It was similar, yes.

MR. SIMMONS: Mmm.

DR. BRUNEAU: The technical nature of it was very similar, but the driver – the demand driver – was not quite the same. It – obviously, it was – I recall in 2005 and '06 it was your One-Tonne Challenge. The idea was how much greenhouse gas emission could one reduce.

MR. SIMMONS: Aha.

DR. BRUNEAU: And it was shown to be a significant cost reducer, but also a way of stepping back considerably on our greenhouse gas emissions and cleaning things up.

MR. SIMMONS: Mm-hmm.

DR. BRUNEAU: And my assertion at that time as well was that development of Lower Churchill would best be done integral with the Upper Churchill and brought to greater markets than it would be domestically, because we had this resource sitting next to us that was unused. So I felt that it was an excellent opportunity.

Now, that was the context of '05 and '06 and that Holyrood was clearly an aging station at that time.

MR. SIMMONS: Yeah, so –

DR. BRUNEAU: It was time to replace it. So in 2012 –

MR. SIMMONS: Well, (inaudible) 2005 and '06 first, for a second –

DR. BRUNEAU: Yeah, sure.

MR. SIMMONS: – if we could.

DR. BRUNEAU: Yeah.

MR. SIMMONS: So those are two public presentations that you made in forums that had a lot of industry leaders there; government leaders, I expect, we tend to see at those forums as well.

DR. BRUNEAU: Yes.

MR. SIMMONS: Certainly, the – were representatives from the operators of the oil fields offshore?

DR. BRUNEAU: Yeah

MR. SIMMONS: Yes?

DR. BRUNEAU: Mmm.

MR. SIMMONS: So what happened then? Was there any interest? Was there any sign of any consideration being given to that idea? Because if it was an economically feasible idea you'd think there would have been something – some kind of interest shown in the fact that –

DR. BRUNEAU: I've spoken to four premiers about this.

MR. SIMMONS: Mm-hmm.

DR. BRUNEAU: There's a lot of interest in it –

MR. SIMMONS: What about from the oil companies?

DR. BRUNEAU: – and a lot of industry leaders.

Oh goodness, they – deafening silence.

MR. SIMMONS: Mm-hmm.

There's an argument – I mean there's an argument to be made that the oil companies are in business to make money. And if there's any kind of an economic case to be made, either by doing something on their own or by making a

case to government for public participation, you'd think they'd come forward and do it.

DR. BRUNEAU: No, the reason is that there are two conditions that are important. There are more than two, but principally it isn't just to make money. You can have a rate of return of 50 per cent and it's still unattractive, the reason being that it doesn't have a present value that's big enough to be of any concern.

You mentioned a moment ago, earlier, that there was the development for Hebron and the upper level – which will be their lower level for sure – of a thousand –

MR. SIMMONS: Yeah, well, Mr. Ralph mentioned that.

DR. BRUNEAU: Yes, okay.

Well, there's a thousand – it's a billion barrels of oil and at \$50 a barrel, that's \$50 billion in revenue. Now, one must know that this is an awful lot of money compared with the potential for earning money for selling gas to the Island of Newfoundland to replace Holyrood.

MR. SIMMONS: Mmm.

DR. BRUNEAU: Recall that the amount of gas used on the platforms alone is equal to what we need at Holyrood. So they could double their money, triple their money, there's still not going to be an initiative to do it if it's so small as to be an interference.

MR. SIMMONS: So then in – by 2012 you did your submission to the PUB and you did your Harris Centre presentation. And if I recall correctly from your evidence when you were here a month ago, your motivation was to contribute to the public debate, I gather, and make sure that this idea wasn't overlooked, to make sure it was properly evaluated before any final decisions were made about the –

DR. BRUNEAU: Yeah.

MR. SIMMONS: – Lower Churchill Project.

DR. BRUNEAU: That's right.

MR. SIMMONS: Is that generally correct? Okay.

DR. BRUNEAU: Very much a public duty.

MR. SIMMONS: Okay.

And let's – if we could go to your presentation to the Harris Centre, please, at Exhibit P-00090, tab 4. I'm just going to go to the last page, page 65, just for a couple of questions – 65.

So this is your concluding slide.

DR. BRUNEAU: Mm-hmm.

MR. SIMMONS: And I don't intend to work through the detail of the evidence that you gave when you were here before because you did that pretty comprehensively. The first bullet says: "Natural gas is available in the timeframe and quantities we need for domestic electricity."

DR. BRUNEAU: Right.

MR. SIMMONS: And if I understand correctly, you worked from public sources in conducting your analysis –

DR. BRUNEAU: That's –

MR. SIMMONS: – so (inaudible) the ability of natural gas.

DR. BRUNEAU: That's correct, yeah.

MR. SIMMONS: Did you make any direct inquiries of anyone at Nalcor, or Nalcor Oil and Gas, for any information to broaden your knowledge or your understanding of that availability question?

DR. BRUNEAU: Not specifically that question that I'm aware of. I have spoken to Jim Keating about this very concept, and he's the head of their oil and gas –

MR. SIMMONS: Okay. Did you do that as part of the preparation for your presentation at the Harris Centre?

DR. BRUNEAU: No, evidently, Nalcor did not consider natural gas.

MR. SIMMONS: Okay. Did you send an email –?

DR. BRUNEAU: No, it's – the Navigant report said that they had not considered it.

MR. SIMMONS: No, my question's a very simple one.

DR. BRUNEAU: Oh, okay.

MR. SIMMONS: My question's a simple one: Did you initiate any contact with Nalcor to ask any questions or get any information in the course of preparing your Harris Centre report?

DR. BRUNEAU: No.

MR. SIMMONS: What about C-NLOPB, other than their publicly available material, did you initiate any contact with them to gather any information?

DR. BRUNEAU: Yes.

MR. SIMMONS: Okay. Can you tell me what you did?

DR. BRUNEAU: Yes, I was interested to know what was the recovery rate from reinjected gas and other things, so I had written to people at the C-NLOPB, but all of the information that was needed for the argument that I have –

MR. SIMMONS: Was publicly available.

DR. BRUNEAU: – was publicly available and all of my answers came from publicly available documents.

MR. SIMMONS: Okay. And what about at the Department of Natural Resources or otherwise in government, did you contact anyone or make any inquiries of any sort in order to gather any additional information other than what was publicly available when –

DR. BRUNEAU: Yes.

MR. SIMMONS: – preparing for the Harris Centre?

DR. BRUNEAU: Yes.

MR. SIMMONS: Okay. Can you tell me what you did in that regard?

DR. BRUNEAU: I met with deputy ministers, assistant deputy ministers, and I don't have – I didn't ever bring that up or utilize any of that information, I don't have records of it, but I met with those deputy ministers at that time.

MR. SIMMONS: When was that in relation to the actual delivery of the Harris Centre presentation?

DR. BRUNEAU: Certainly prior to it, but I don't know how long prior.

MR. SIMMONS: Was it while you were preparing for the Harris Centre presentation or was it a year or two or three before?

DR. BRUNEAU: Oh, it would've been before hand, as you say, a year or two or three.

MR. SIMMONS: A year or two or three before it?

DR. BRUNEAU: Yes, absolutely.

MR. SIMMONS: So it wasn't part of the work you were doing to actually prepare your presentation for the Harris Centre, this was knowledge you had from meetings or discussions you had had before with them.

DR. BRUNEAU: I think that the preparation of the document was done within a week of the Harris Centre presentation.

MR. SIMMONS: Mm-hmm.

DR. BRUNEAU: But the material was clearly gleaned and gathered over time and the discussions that I had with the government officials took place during the time in which the discussion of which alternative would be utilized for future energy on the Island, so it was very much apart of the discussion that prompted me to look them up.

MR. SIMMONS: And what contacts did you make to representatives of any of the oil companies that were operating to see what their current plans were for the gas, other than what you could see publicly?

DR. BRUNEAU: I have quite a few personal contacts within industry, and I spoke to people that I know, and I utilized what I could from their information – from their development plans –

MR. SIMMONS: Mm-hmm.

DR. BRUNEAU: – and from the information, but absolutely nothing in terms of documentation could be received or given, other than what, you know, the C-NLOPB can provide me.

MR. SIMMONS: Right.

DR. BRUNEAU: Yeah.

MR. SIMMONS: And don't get me wrong, I'm not saying that you –

DR. BRUNEAU: No, I'm –

MR. SIMMONS: – should've gone and –

DR. BRUNEAU: Oh –

MR. SIMMONS: – done these things.

DR. BRUNEAU: – and good luck –

MR. SIMMONS: But I just want to clarify.

DR. BRUNEAU: – to anyone who tries.

MR. SIMMONS: I just want to clarify –

DR. BRUNEAU: Yeah.

MR. SIMMONS: – what you did.

DR. BRUNEAU: Yeah.

MR. SIMMONS: So, it sounds to me like you had informal contacts, the people you know in the oil industry. But did you make any kind of formal requests or formal, you know, send an email, ask for a meeting with someone in a more formal sense in order to gather information about what the oil company positions were on whether gas could be made available for domestic consumption?

DR. BRUNEAU: No.

MR. SIMMONS: We know that some people who've been here giving evidence have been users of the access to information process, and I presume you hadn't used that in order to gather any information here either? No.

DR. BRUNEAU: No, no. But –

MR. SIMMONS: Okay.

DR. BRUNEAU: – you know, one must recall that this was a voluntary effort and –

MR. SIMMONS: Oh, yes.

DR. BRUNEAU: – I, alone, was doing, but in any event.

MR. SIMMONS: Yes, and I'm not saying you should have –

DR. BRUNEAU: No, no.

MR. SIMMONS: – but I just want –

DR. BRUNEAU: I get that, yeah.

MR. SIMMONS: – to clarify what the sources of your information was.

DR. BRUNEAU: No trouble, whatsoever.

MR. SIMMONS: Okay.

DR. BRUNEAU: No.

MR. SIMMONS: Good.

So when we look at the first bullet then, the second sentence is: "The costs for a natural gas infrastructure and fuel are very low compared to the alternatives."

DR. BRUNEAU: Right.

MR. SIMMONS: Now – and we go through your presentation from beginning to end, we can see and you've explained how you did that sort of calculation.

DR. BRUNEAU: Yes.

MR. SIMMONS: But am I correct in thinking that what you are presenting here, while – we

can't call it back of the envelope 'cause there's a lot of work went into it – there's still substantially less than what would have to be done to do a complete and full evaluation of the economics are your proposal?

DR. BRUNEAU: You're right about that, but the reason why it was given at all was that it didn't appear that even that level of analysis had been done prior to it, by anyone.

MR. SIMMONS: Right.

DR. BRUNEAU: So, I agree in the principle. The overarching goal of this presentation was to bring to the attention of people that the natural gas option had been unfairly dismissed and needed more detailed investigation by engineers and others in the industry that are in a good position to get that information and to, in particular, to involve the offshore operators because they are the best people to tell us –

MR. SIMMONS: Right.

DR. BRUNEAU: – how it could be done.

MR. SIMMONS: Right.

DR. BRUNEAU: – but they were never asked.

MR. SIMMONS: And that's the point in the last bullet you have on your slide there is – where you say let's take a closer look.

DR. BRUNEAU: I was wrong about the lights not going out but, yes.

MR. SIMMONS: Yeah.

And so on that point of communication with the operators, you spent five years of your career working in that industry.

DR. BRUNEAU: Oh, yes.

MR. SIMMONS: Can you tell me anything about your perceptions or knowledge of how closely protective oil companies are of their proprietary information, their strategic information and their planning, from your experience?

DR. BRUNEAU: Are you – pardon me – do represent Nalcor?

MR. SIMMONS: Yes.

DR. BRUNEAU: Hmm, okay.

My experience started out early days of having oil and gas companies sponsor research projects that I was involved in and then I moved in to this third party oil and gas company that was not endearing itself to the offshore operators here because the industry here was fairly young and the – they had – the operators, the large operators that we know, had taken considerable risk to get where they are. And they are loath to involve provincial governments or local governments in their work.

MR. SIMMONS: And are – did you encounter use of confidentiality agreements, agreements protecting proprietary information, non-disclosure agreements frequently in your work with the oil companies?

DR. BRUNEAU: On one occasion when we did make headway with one of the companies, we came to mutual agreements about that. Otherwise, we didn't have the kind of communication with other operators that would have warranted it.

MR. SIMMONS: Right.

So would you accept that it's fairly common in the industry to see those sorts of agreements in place when oil companies are dealing with information that they consider of strategic value or confidential to their commercial interests?

DR. BRUNEAU: Not sure I understand your question. If it's do they keep their own internal business workings confidential? I can assure you they do, and, as we all know, they do.

MR. SIMMONS: Right. And –

DR. BRUNEAU: Yeah.

MR. SIMMONS: – if they're going to disclose it they're going to want to make sure appropriate arrangements are in place to protect it?

DR. BRUNEAU: Absolutely.

MR. SIMMONS: After the Harris Centre presentation in 2012, I think you did achieve your objective in the sense that there was a degree of debate, public interest, and it did become somewhat of an issue, then, after that – whether natural gas should be looked at as an alternative for electricity generation. You recall that?

DR. BRUNEAU: Oh, I do, it was –

MR. SIMMONS: (Inaudible) pleasant experience –

DR. BRUNEAU: – yeah, no, no, no –

MR. SIMMONS: – but it –

DR. BRUNEAU: – absolutely, no trouble, yes –

MR. SIMMONS: Right.

DR. BRUNEAU: – absolutely.

MR. SIMMONS: And one of the things that happened then was – and you’ve described this – was that the government commissioned the Ziff report. And you’ve provided a fairly detailed rebuttal in your speaking notes that you’ve provided to –

DR. BRUNEAU: Yes.

MR. SIMMONS: – the comments made in the Ziff report –

DR. BRUNEAU: Yes.

MR. SIMMONS: – about your work.

DR. BRUNEAU: Yes.

MR. SIMMONS: Did you do that assessment back in 2012 when the Ziff report came out –

DR. BRUNEAU: Mmm.

MR. SIMMONS: – or was that something done more recently?

DR. BRUNEAU: No, I did it in the weeks prior to my –

MR. SIMMONS: Okay –

DR. BRUNEAU: – (inaudible).

MR. SIMMONS: – had you – why had you not done something back in 2012, when the Ziff report came out, in order to respond to the points that were made in the report?

DR. BRUNEAU: It was sanctioned – the project –

MR. SIMMONS: Mmm.

DR. BRUNEAU: – was sanctioned within weeks of that report having been tabled.

I – it was – I think the day, at the time and effort, there was this freight train barrelling down the tracks, and the report came out. In fact, I’ll be honest, I don’t recall ever seeing or being aware of the Ziff report until after the project was sanctioned. It’s a very busy time of the year for me in my –

MR. SIMMONS: Mmm.

DR. BRUNEAU: – professional life in November and December –

MR. SIMMONS: Okay.

DR. BRUNEAU: – so I did not even see it.

MR. SIMMONS: And, in fact, when did you first read it?

DR. BRUNEAU: I read it over the past month and a – two months.

MR. SIMMONS: Okay, not until then.

DR. BRUNEAU: Not until then.

MR. SIMMONS: Right.

So the rebuttal, then, that you’ve prepared in your speaking notes is some – is a fairly recent piece of work looking back at (inaudible) –

DR. BRUNEAU: It’s – I – absolutely a recent piece. I hadn’t read the report until then. But, of course, you know that I refer only to information that was known in 2012 in that rebuttal, so ...

MR. SIMMONS: Okay. Good.

DR. BRUNEAU: Hmm.

MR. SIMMONS: Thank you very much.

Those are all my questions.

DR. BRUNEAU: Sure.

THE COMMISSIONER: Concerned Citizens Coalition.

MR. BUDDEN: Good morning, Dr. Bruneau.

As you know from our brief conversation last day, my name is Geoff Budden. I'm the lawyer for the Concerned Citizens Coalition, which as you probably know, as well, is a group of individuals who for a number of years now have been critics of the Muskrat Falls Project.

I have a few questions for you. I'd like to start with a, sort of, passing comment you made to, I believe, Mr. Simmons when you made a reference to the natural gas industry off the coast of Nova Scotia. And I'd like you to tell us a little more about the Sable Offshore Energy Project, in particular, about that industry perhaps a little more generally.

DR. BRUNEAU: I knew a lot more about it when it was going on than I do right now, so I'll qualify that way.

What I do know is that the platforms, several of them, of course, they're not subject to ice or loads and anything else, and it's a natural gas development off the coast of Nova Scotia. So they have several platforms and they tie them back together into one sort of platform and launch of pipelines, about a 24-inch-diameter pipeline, that takes gas to the shore for processing. Mmm – I don't – between 100-200 kilometres, thereabouts, from Sable Island out to Goldboro.

And a separate project ran the natural gas from Nova Scotia into the United States, and that was a pipeline that was to be the principal conduit for getting gas to the North American market. And that pipeline has several laterals that also feed natural gas into the Halifax region and in New Brunswick as well.

As for the project these days, I think they've had some dwindling resources, some decommissioning of some platforms. It wouldn't surprise me if there was capacity available in that pipeline, but I don't know if that answers your question.

MR. BUDDEN: No, it's a start.

So just to zoom out a little bit. Unlike you, I've acquired my expertise from Wikipedia, so I'll just tell you a little bit for confirmation. I understand the field went into production around the year 2000.

DR. BRUNEAU: Yes, yeah.

MR. BUDDEN: And it was generating, you said, at its peak, 400-500 million cubic metres of natural gas a day.

DR. BRUNEAU: Cubic feet of gas a day.

MR. BUDDEN: Does that square with your –? Okay.

DR. BRUNEAU: Yeah, cubic feet. Yeah.

MR. BUDDEN: Yes, and it had an expected field life of 25 years or so, so perhaps it's not unexpected that production is now starting to dwindle as we enter the latter phase of that project life.

DR. BRUNEAU: Yes.

MR. BUDDEN: Okay.

Zooming out back to Newfoundland, I took it from your presentation – and if I'm wrong, correct me – that your belief is that a project with a generating capacity of – or at least a project that would have the capacity to replace Holyrood, which you took as the capacity to generate 210 megawatts of power, could be powered by about 300 (inaudible) – 35 cubic – 35 million cubic metres of natural gas a day.

Am I right there?

DR. BRUNEAU: Essentially, and maybe I can phrase it in a way that I –

MR. BUDDEN: Please do.

DR. BRUNEAU: – think I understand.

The replacement of Holyrood, to get the same amount of energy out of Holyrood as we presently get from oil, the average amount of natural gas we would need everyday to do that would be of the order of 32 million standard cubic feet of gas a day. However, we know that Holyrood isn't used on an average basis like that.

MR. BUDDEN: Right.

DR. BRUNEAU: It's essentially unutilized in the warmth of the summer and then heavily utilized in the winter, so it's quite seasonal. But the average works out to about 30-odd million standard cubic feet of gas a day, today.

There are years when we have more water fall in our hydraulic reservoirs and less demand, and so in 2010, for example, the annualized amount would've been closer to 13 million standard cubic feet of gas a day, which, you know, in terms of Sable, as you mentioned 400 or 500 million, it would've been significantly less than 10 per cent of the amount of gas there.

MR. BUDDEN: Sure.

And the difference, of course, between natural gas and some – natural gas and some renewable resources such as wind is that the gas can be stored for use during, say, the winter months when it is needed, and so that capacity is there in a way that is not there for certain renewables.

DR. BRUNEAU: It is. There's a few reasons why it's a good fuel. The dispatchability, as you call it, the ability to call it up when you want it; the ability to store it or produce it when you want it are very important. It also furnishes less than half of the amount of greenhouse gas as the other hydrocarbons do, oil and coal, diesel. So it does have significant benefit to reducing greenhouse gas emission, and it plays a significant role in North America power, yeah.

MR. BUDDEN: Sure.

The term storage gas; can you tell us again, within the context of the Newfoundland offshore oil development, what is meant by storage gas?

DR. BRUNEAU: Well, I guess I would – I think I understand your question this way: Natural gas is produced offshore here because it is associated with the oil and comes up the drill stream whether you want it or not, and effectively there are four different things. I'll categorize it this way. There are four things that that natural gas ends up doing, or people do with it when it comes up. And first and most important is that that natural gas is used as a fuel on the platform.

MR. BUDDEN: You say it generates about – or is used in the range of a couple hundred megawatts?

DR. BRUNEAU: Yeah.

MR. BUDDEN: Yeah.

DR. BRUNEAU: That's right. That's right, between three platforms out there because these numbers are 2012 numbers.

MR. BUDDEN: Yes.

DR. BRUNEAU: But certainly Hebron adds another hundred megawatts for sure, or thereabout, but they use it for fuel.

Some natural gas gets flared and the operators are limited in what they can flare. And there are safety reasons and other reasons why that's done, but – so that's the second use. The third is that natural gas is often used in part of the strategy for extracting oil insofar as it is reinjected into producing reservoirs so that oil may be – production of oil may be enhanced by pushing it out, essentially. And then in instances –

MR. BUDDEN: Can I just stop you there for a second?

DR. BRUNEAU: Yes, yes.

MR. BUDDEN: So none of those three things – none of that gas, obviously, would be available for domestic use in Newfoundland because it is being used in the production of oil or otherwise inherent to the projects, those three.

DR. BRUNEAU: Well, if – I might say it a different way. If there were – if this were in the

Gulf of Mexico and it were next to a pipeline that was exporting gas, and operators were going to be earning money from that gas, it would clearly reduce the amount of flaring – or minimize, I should say, the amount of flaring. They would look at alternative strategies or optimal strategies for getting oil out of the ground. It may not be gas pressure maintenance; it may be water flood or other means, if the gas proves to be more valuable as a commodity rather than as a material for reinjection.

So that's – you know, I wouldn't say those fuels are not available for economic use. In our context, yes, we might as well say that, because the fourth category is the storage of gas in a location that is just for preservation for future access. According to the regulator and as being good stewards of our resource, the gas needs to be – it can't be wasted and it's stored in storage reservoirs.

MR. BUDDEN: Okay.

And are you able to give us a sense of how much natural gas is being stored or is stored as storage gas?

DR. BRUNEAU: Right now, I would say probably in the context of Holyrood – you know that people use analogies for size; they say football fields or Delaware, let's use Holyrood as our scale. Holyrood fuel consumptions for annualized would be about a tenth of the amount; in other words, we probably reinject for storage 10 times more natural gas than what we would need to satisfy domestic energy needs here – electric energy needs. That's an approximate. Understand?

MR. BUDDEN: Sure.

Perhaps we could turn to Exhibit 00060, and page 22 of that exhibit, Madam Clerk.

THE COMMISSIONER: Tab 1.

MR. BUDDEN: The – if we go down to the – under initial – you're familiar with this document, obviously? It was discussed in your direct evidence.

DR. BRUNEAU: Yes.

MR. BUDDEN: And if we go to that third bullet: Other initial challenges are very low gas volume. I guess, how do you reconcile that with what you have just said? Or how can you, I guess, contrast what you're saying with what is said there? And I believe the Navigant report says something broadly similar.

DR. BRUNEAU: Well, in the context of supplying domestic energy needs, Ziff is wrong.

MR. BUDDEN: Okay. Well, that's pretty – that's pretty blunt.

So you simply take issue with that. You say that's factually incorrect and the way you've explained is, in fact, correct.

DR. BRUNEAU: Yes. I think that, in fairness to them, they probably misunderstood the question here and are trying to tell us that it's too small a gas volume to entice the operators to initiate or launch a natural gas industry of export to the marketplace.

And that might be a very – that might be a viable and truthful statement in that context. But in the context and the manner in which you just framed it, that there's too low a gas volume to supply domestic energy needs, well, there's no grounds for that.

MR. BUDDEN: Okay.

And, again, you indicated that the Sable project brings its gas onshore by means of a pipeline; however, the distinguishing feature is that is a less hostile environment in which to construct and maintain a pipeline?

DR. BRUNEAU: It is – that is correct that it is a less hostile environment. But there are many more hostile environments, much deeper water, much poorer seabeds that – in which pipelines, significantly higher investment pipelines, have been installed.

So I don't know if the harshness of the Sable installation or the area actually has much bearing on the question of the viability of a gas pipeline here.

MR. BUDDEN: Sure.

I guess my final question or couple of questions: In your direct evidence a month ago you basically said, if I understood you correctly, that while sanction had taken place, you moved on, not wishing to appear to be, you know, sort of undermining a decision that had been made. And you also had ongoing relationship with Nalcor, positive relationships around placing your students on –

DR. BRUNEAU: Absolutely.

MR. BUDDEN: – Muskrat Falls sites where they had good experiences and so on.

DR. BRUNEAU: Yeah, exactly.

MR. BUDDEN: So you’ve now – you’re now back here. It’s 2018, all these years later. Can you think of anything that has changed, to change or undermine or distinguish away your conclusion that you had back in 2012 about the viability of natural gas from the offshore fields fueling a hydro-sized generating station, supplying the needs for the Island of Newfoundland?

DR. BRUNEAU: I wish we still had the same market availability on the Island because conditions are even better now than they were then for bringing gas to the Island for domestic needs.

As counsel for Nalcor has pointed out, or somebody pointed out here, in the Hebron development application they describe their platform as also being capable of intercepting and moving natural gas, going after it, which means that yet another of Ziff’s statements, that gas industry for the Island would need to pay for its own platform, is rendered further inaccurate.

So I think that that’s the case. I know that the folks at White Rose have completely exhausted the storage capability of its northern reservoir for natural gas. It’s full – absolutely full. A single well in that field would serve our purposes here in Newfoundland potentially through to 2041.

MR. BUDDEN: Thank you very much, Dr. Bruneau. Those are my questions.

THE COMMISSIONER: Edmund Martin?

MR. SMITH: No questions, Mr. Commissioner.

THE COMMISSIONER: Kathy Dunderdale?

MS. E. BEST: No questions, thank you.

THE COMMISSIONER: Thank you.

Former Provincial Government Officials ’03-’15?

MR. T. WILLIAMS: Good morning, Dr. Bruneau. I just have a couple of questions. Tom Williams, I’m representing former government officials from the period of 2003 to 2015.

You indicated – and I know it’s about a month ago, but I think you indicated and perhaps confirmed this morning, that your interest to speak publicly on this issue was a personal interest that you had, concerns that you had back in the period of 2011-2012. Would that be correct?

DR. BRUNEAU: Professional duty.

MR. T. WILLIAMS: Okay.

But in terms of your professional work history, I think your resume indicates most of your employment history – or at least a fair, significant amount of it – was in the area of cold ocean and harsh environment ice-risk management.

DR. BRUNEAU: A significant amount, yes.

MR. T. WILLIAMS: Okay, so that’s where your actual employment would be – have its biggest emphasis in?

DR. BRUNEAU: I think that’s correct to say, yeah.

MR. T. WILLIAMS: Okay. So your expressions of interest in this area, I think, have been confirmed this morning. You’re not presenting as a qualified engineering expert in the area of natural gas?

DR. BRUNEAU: Well, I am a registered engineer. I do – I am on a licensed permit to operate here in this province. I have significant

experience in this area, and I've spoken to many business leaders and politicians about the case, not by my own insertion, but at their request. So however you wish to qualify the word expert witness, you may do so, but –

MR. T. WILLIAMS: Okay, and I don't mean to get too technical, and I know you've spoken on this topic back as far as 2004 to 2005, obviously.

DR. BRUNEAU: Oh, yes.

MR. T. WILLIAMS: If not – but in terms of your evidence before the Commission –

DR. BRUNEAU: Yes.

MR. T. WILLIAMS: – you have not been qualified by Commission counsel as a legal expert in the area of natural gas?

DR. BRUNEAU: No, Sir. Not that I'm aware of.

MR. T. WILLIAMS: Have you ever given any evidence and have been qualified as a legal expert in the area of natural gas?

DR. BRUNEAU: In a court, no.

MR. T. WILLIAMS: Okay.

With respect to expertise regarding financial analysis, have you any expertise in able – to be able to prepare cost-assessment opinions with respect to a project such as natural gas?

DR. BRUNEAU: Only that which is incumbent on me as a practising engineer, in terms of making estimations and net present value of projects and things. So that qualifies me insofar as any – most other professional civil engineers who are involved in projects.

MR. T. WILLIAMS: But you don't have training as a financial analyst in order to do a detailed cost assessment with respect to the viability of natural gas?

DR. BRUNEAU: You're right.

MR. T. WILLIAMS: Okay.

And would you agree with me that this topic has been studied by recognized international experts, such as Pan Maritime Kenny, Navigant Consulting, Ziff engineering and Wood Mackenzie?

DR. BRUNEAU: Could you say the first part of that question again, please?

MR. T. WILLIAMS: Would – are you prepared – would you be prepared to acknowledge that such consultants as Pan Maritime Kenny, Navigant Consulting, Ziff Energy and Wood Mackenzie would be considered experts in the area of natural gas, regardless of whether you agree with their opinions or not?

DR. BRUNEAU: I looked up Ziff Energy and discovered that they were never licensed to operate in Newfoundland as a professional engineering outfit and none of their engineers were registered in this province.

MR. T. WILLIAMS: So I –

DR. BRUNEAU: So I don't know that if your statement is that they're qualified to do that analysis here in this province, if that's what you're saying, then I don't think I can agree with that. But I can agree that other – that their people are qualified people, that they're quite capable.

MR. T. WILLIAMS: I don't want to go down the path – but I think you're – are you – you're speaking that they're not licensed to practise engineering –

DR. BRUNEAU: In this province.

MR. T. WILLIAMS: – on a full-time basis?

DR. BRUNEAU: In this province.

MR. T. WILLIAMS: In the province. But that would not necessarily take away from their expertise to speak to areas pertaining to natural gas. Would you agree with that?

DR. BRUNEAU: If it involves a development like what Ziff was asked to do – and that's something that requires comprehensive technical knowledge and expertise and a familiarity with the industry here and the offshore here – and if –

it would be my opinion that they ought to be professional engineers in this province to be able to make the kind of important comments that are made here and the assertions and the level of responsibility because of the decisions that were gonna be made on their work. And so I stand alone as a registered engineer having spoken on this.

MR. T. WILLIAMS: So would I take it from your comments, then, you feel you're better – you're in a better position to speak to the development of natural gas in the Province of Newfoundland and Labrador than a consultant such as Ziff Energy?

DR. BRUNEAU: No, I don't think that that can be quite – no, no. I have my experience, for sure, but I have none of the forecasting experience and other – the type of work that they do. None of us possess all these expertises, so, you know, no.

MR. T. WILLIAMS: Would it be fair to say that your opinion in respect to the potential development of natural gas within the province would run contrary to the reports filed by such experts as Pan Maritime – and I know that goes back to 2001 – Navigant, Ziff Energy?

DR. BRUNEAU: No, yes, yes.

MR. T. WILLIAMS: Okay, so you would agree with the – when you say no, you're not contrary to the report of Pan Maritime?

DR. BRUNEAU: No, not at all. They themselves thought that the best-case scenario for natural gas industry beginning here was 2015.

MR. T. WILLIAMS: Okay.

Are you familiar – have you had an opportunity to review the Grant Thornton report that was filed?

DR. BRUNEAU: Yes.

MR. T. WILLIAMS: And are you aware that Grant Thornton gave consideration to Nalcor's review of the natural gas option and concluded that, based upon their review, nothing has come to their attention which would suggest the

decision was unreasonable at the time it was made?

DR. BRUNEAU: Which Nalcor review of gas are you referring to?

MR. T. WILLIAMS: Well, when Grant Thornton prepared their report for the Commission, and they were a retained expert on behalf of the Commission, they considered numerous options that Nalcor had reviewed. And they don't get into the specifics; I think there is reference to the Pan Maritime report, but –

DR. BRUNEAU: Mmm.

MR. T. WILLIAMS: – they do state that they felt Nalcor's dismissal of natural gas as a viable option was not unreasonable. Are you aware of that?

DR. BRUNEAU: You said that they studied Nalcor's review of natural gas, and I don't know which review of natural gas you're referring to.

MR. T. WILLIAMS: Okay. I just – I'm asking not – and I don't think, in fairness, the report doesn't get into a detailed analysis of what particulars –

DR. BRUNEAU: Whose report is that?

MR. T. WILLIAMS: The Grant Thornton report does not get into it.

DR. BRUNEAU: Doesn't get into ...?

MR. T. WILLIAMS: It simply says that they've reviewed Nalcor's consideration of the viability of natural gas, and they – the dismissal of that proposal, they felt, was not unreasonable. Are you aware –?

DR. BRUNEAU: Nalcor did not consider natural gas.

MR. T. WILLIAMS: Okay.

So are you aware of any discussions that may have been held by officials at Nalcor with any of the larger producers of natural gas within the province?

DR. BRUNEAU: Shockingly, no. In fact, Ziff responds themselves that they went – they had to go to the operators themselves. They received no indication from anyone that any discussions had taken place, nor have I seen any and nor has the Energy Plan provoked one.

MR. T. WILLIAMS: So your opinion is not based on any knowledge of whether or not there's been discussion between Nalcor and any of the producers with respect to the potential of natural gas?

DR. BRUNEAU: Knowledge? Of course I don't know all of the emails or conversations that may have taken place, but I'm dealing with facts, documents, with the evidence. And the evidence that's before us in these exhibits and on websites and the provincial government's documentation, I have thoroughly analyzed, and there is nothing there.

MR. T. WILLIAMS: Okay. So I think we've discussed the fact that proprietary information relating to potential developments is usually kept pretty close to the chest by operators such as those involved in natural gas. So you're kind of working in a vacuum because you wouldn't have had any access to any of that.

DR. BRUNEAU: Are you suggesting that there may have been documents done to study natural gas that have not been released to the public?

MR. T. WILLIAMS: I'm just suggesting – do you have any knowledge? And when you made your conclusions, were you aware of any?

DR. BRUNEAU: I have knowledge that they have not been made public.

MR. T. WILLIAMS: Okay. Have not been made public or have not been completed?

DR. BRUNEAU: Well, how would I know if they're private and not been made public?

MR. T. WILLIAMS: And that's what I'm getting at, is that you would not have any knowledge as to whether or not these have been studied or not studied by any of the operators?

DR. BRUNEAU: No, but you know, in recent years, in the industry that I'm in, one must

publish their information. It's not good enough to just tell people I told you so. There has to be evidence.

MR. T. WILLIAMS: And I know you have not had a lot of involvement in the matter in this area since 2012, but are you currently a member of the Coalition of Concerned Citizens?

DR. BRUNEAU: Evidently I am.

MR. T. WILLIAMS: Okay. Thank you.

That's all the questions I have.

THE COMMISSIONER: Julia Mullaley, Charles Bown?

MR. FITZGERALD: No questions.

THE COMMISSIONER: Robert Thompson?

MR. COFFEY: No questions.

THE COMMISSIONER: Todd Stanley, Terry Paddon?

MS. VAN DRIEL: No questions, Commissioner.

THE COMMISSIONER: Consumer Advocate?

MR. HOGAN: Dr. Bruneau, my name is John Hogan, I'm counsel for the Consumer Advocate. The Consumer Advocate represents the ratepayers.

If we could just turn to P-00090, page 28, please.

UNIDENTIFIED MALE SPEAKER: (Inaudible.)

MR. HOGAN: Sorry.

THE COMMISSIONER: Tab 4.

MR. HOGAN: Tab 4.

So this is sections from the Energy Plan, you – this is your report, you obviously remember this. You've been asked about this a few times. I just want to point out a few sections in there, which

you have underlined, actually: “All viable options must be fully assessed”

Mr. Ralph walked you through that other part there that talked about: landing in the province. Do you recall all this?

DR. BRUNEAU: Yes.

MR. HOGAN: If we could just turn to page 30 as well.

Thank you.

UNIDENTIFIED MALE SPEAKER: Mm-hmm.

MR. HOGAN: Page 30. Thanks.

So this is your conclusion there in the middle: This “is a policy-mandated duty to the public” – referring to the Energy Plan – “to investigate the natural gas option – as described in the Energy Plan.”

So is it your opinion, after having done your research, done your reading, done your reports, that the Energy Plan was not followed?

DR. BRUNEAU: Yes.

MR. HOGAN: Okay.

Mr. Ralph, in his questioning, I think – and correct me if I’m wrong, I don’t want to put words in his mouth – but certainly implied that – and you said it wasn’t your area of expertise – that this is not the law, the Energy Plan is not the law. But would you be – are you surprised to hear or would you expect, I should say, as an academic and as a member of the public that the government – would you expect the government to follow its own policy?

DR. BRUNEAU: Yes.

MR. HOGAN: Yes. And you’re surprised to hear that, maybe, the argument is being made now that it doesn’t have to necessarily follow its own policy.

DR. BRUNEAU: Yes, I am.

MR. HOGAN: And I don’t know if you’ve been following much of the Inquiry, but we’ve heard evidence that this Energy Plan in particular was a very, very important piece of the government, the administration, from say, when it was adopted until the Lower Churchill Project was –

DR. BRUNEAU: Yes, I do recall –

MR. HOGAN: – sanctioned.

DR. BRUNEAU: – it seemed that a lot of people were holding off or holding their breath until the document was produced.

MR. HOGAN: I think we’ve heard evidence specifically from the board of Nalcor that this was really adopted as the board’s strategic plan.

DR. BRUNEAU: I –

MR. HOGAN: So does that even further make you wonder why the government has now – is suggesting that it doesn’t necessarily have to be followed?

DR. BRUNEAU: Yes, it does. And it disappoints.

MR. HOGAN: Okay. And as a researcher specifically, you know, university researchers – and I’m sure you have lots of colleagues who do research – I mean, do they look at public policy positions from the government as documents on which to base their research?

DR. BRUNEAU: Absolutely.

MR. HOGAN: Absolutely.

DR. BRUNEAU: Mm-hmm.

MR. HOGAN: Thank you.

If we could turn to page 14 of that document as well; I don’t think you’ve been referred to this specific slide or page: Summary of Grand Banks natural gas availability time frame.

So can you just comment on that and, maybe, what happened with regard to this time frame, if you have any knowledge about it?

DR. BRUNEAU: Thank you.

Yes, I – it was – at the time I knew it would've been irresponsible for me to – alone, to suggest that gas ought to be available by the time we need it. So I went looking for evidence of when others thought that natural gas may be available to us or as an export commodity.

And I went to the provincial government Energy Plan, as you can see, and they have a – besides these statements about landing gas, they also have a chart in that document. And that chart shows marketable production of oil, marketable production of gas and various inclines and declines. And that chart clearly indicates that in their plan they expected natural gas to be available or going to the market by 2020, on that graph. The National Energy Board of Canada is also cited as 2020 because in their forecasting document for energy throughout the country – of course they categorize things in the East and West Coast, Central, et cetera. On the East Coast, in their document, they used 2020 as the most likely time frame for Grand Bank's gas be – to go to market.

HMDC – I still don't know how this came about, but HMDC provided to the C-NLOPB a statement and a chart and a record of when they thought that they would have natural gas available – marketable, to go to market. And that plot is in the C-NLOPB annual report. I guess it's in 2011 or thereabouts – 2010, I – it's in the documentation. And they have a graph showing 200 to 300 million standard cubic feet of gas a day available for market – marketable gas available by 2020. And that needs to be prefaced again. That was their prediction some years before – maybe 2011 or thereabouts.

So Hibernia was also indicating that that was the time frame in which things would take place, and the context is that that natural gas could be rushed to market immediately. But this was the most likely scenario based on market forces and removing gas without any depletion to the productivity of oil or, should I say, without any harm to oil production. So anyway HMDC thought 2020 was about right. And then, of course, CIBC or the – it was Pan Maritime's report in 2001 – the preface that they thought that the best time frame for natural gas coming to

shore, without any harm to oil production, but for commercially attractive reasons, was 2015.

So those – that was the documented information available to me at the – oh, and C-NLOPB and Husky – well, Husky can – essentially they can say nothing because every bit, every shred of evidence that's in any documentation that you look at shows that they have gone through all kinds of gymnastics to try and get rid of, store and otherwise utilize natural gas because they have it in spades and they don't use it for oil production and it costs them a lot of money to drill wells to find places to put it.

MR. HOGAN: So to sum it up, you mean, there's evidence from your research that there was available natural gas and the plan was to get it here by either now or 2020?

DR. BRUNEAU: Yes. I think – I don't know if this was a statement that they planned to, but that the statement –

MR. HOGAN: It could have.

DR. BRUNEAU: – was that it could have – if somebody asked.

MR. HOGAN: No. I just –

DR. BRUNEAU: If somebody tried.

MR. HOGAN: There's a couple of references in your – one of your papers and in this as well.

Am I right in just to say that it was dismissed outright because we didn't have it commercially available at the time it was looked at? As opposed to was the study ever done to say: What's our domestic need and can natural gas meet our domestic need? Does that study exist?

DR. BRUNEAU: No. I don't – I haven't ever seen it. And now mind you, the counsel for – previously –

MR. HOGAN: For government.

DR. BRUNEAU: – suggested that such things might've been done but they'd been kept from our eyes. But in the public domain and the website, the regulator itself, and the provincial

energy policy suggests that such things should be done.

And I would – your question is an extremely important one. And that is – has anybody been asked – have any of the operators been asked how much would it cost to land domestic quantity of gas on the Island and give us the details?

MR. HOGAN: As opposed to is this a good money-making scenario.

DR. BRUNEAU: As opposed to when do you think you will bring gas to shore? Well, what do you expect them to say?

MR. HOGAN: And so we can't dismiss it or accept it if we don't know the cost for domestic use.

DR. BRUNEAU: There was no grounds upon which to make a commercial judgment.

MR. HOGAN: But there's – if there's documents that you haven't seen – which was the questions that Mr. Williams was asking you – one of two scenarios would exist. Either no reports exist – it's possible, so there could be three scenarios. Or something exists that says you can or something exists that says we can't. And we don't know the answer to that, do we?

DR. BRUNEAU: No, but one would certainly think that if it supported the argument that was being put forward in 2012 that it would have –

MR. HOGAN: Be released.

DR. BRUNEAU: – pretty quickly been made public.

MR. HOGAN: Agree.

So just in terms of was that question asked, I mean we all know Memorial University is a research university.

DR. BRUNEAU: Mm-hmm.

MR. HOGAN: There's research done in your department of engineering?

DR. BRUNEAU: Yes.

MR. HOGAN: Your colleagues take part in various usage –

DR. BRUNEAU: Lots.

MR. HOGAN: Lots, yes. You were – are you aware of anyone at the university in your department that was approached by Nalcor to discuss this issue or to do research on this issue?

DR. BRUNEAU: Oh no, I'm –

MR. HOGAN: (Inaudible.)

DR. BRUNEAU: – not aware. I'm not aware of anyone that was asked to investigate this, no.

MR. HOGAN: Is it something that's – could have been provided from your faculty to Nalcor, be of some service?

DR. BRUNEAU: Yes.

MR. HOGAN: Yes. Okay.

Can you go in a little bit more detail about that? Is there anyone in particular you're thinking about or are you thinking about you?

DR. BRUNEAU: I have some of this – I have a longer shadow in this industry and knowledge, but some of my colleagues are – have been uninvolved in, you know, policy-related things, but are technically very sound in matters of production and stewardship and environmental efficiencies. There's many different angles that could have been looked at by very capable colleagues who have knowledge well beyond mine on some of the details here.

MR. HOGAN: And it wouldn't be out of sorts for Nalcor to approach anyone at the university to assist with research? We've heard them approach Dr. Wade Locke at the economics department to do research. So –

DR. BRUNEAU: Oh, I can assure you that me and my colleagues longed for the support from our Crown corporation to do research on local energy. We longed for it.

MR. HOGAN: Any reason you think you weren't asked?

DR. BRUNEAU: I don't care to comment on that. Or I don't feel I'm – it's my place to comment.

MR. HOGAN: Okay.

In terms of the reports, comments that you've made, you've done them very publicly. You submitted a document to the PUB, presented at the Harris Centre. I just want to compare that to the Ziff reports and the Wood reports, which have not been publicly examined. Do you have any comment on that?

DR. BRUNEAU: My understanding in the court and in inquiries is that there is a witness and then a cross-examination and then a redirect examination. And in that context I don't think a redirect was ever granted, any time or resources or energies were ever put to it. If that Wood Mackenzie report was thought to be a redirect of the Ziff, then I would have to suggest to you that it was inadequate.

MR. HOGAN: Do you feel it was done a bit backwards? You know, Ziff sounds like it's responding to you, a member of the public, as opposed to the proponent putting forward a report and maybe the public responding.

DR. BRUNEAU: I think Ziff proved that the work that they were doing, and that I had presented, had not been done prior to when I had done it. They spent a good deal of time refuting, or attempting to, the claims that I had made. And then –

MR. HOGAN: Oh, that's my point; shouldn't there be a report to advocate for it in the first place as opposed to responding to a member of the public?

DR. BRUNEAU: Absolutely.

MR. HOGAN: Do you have any knowledge or can you comment on the reliability of hydro versus natural gas?

DR. BRUNEAU: Well, that's a good question. I think early days there were some that viewed the power from the Churchill River would be a more reliable energy supply – electrical energy supply – than thermal generation at Holyrood. But I

don't think that many people really feel that that's a safe bet.

This is a little – this is outside my area of jurisdiction, but let me just say that the closer the generation takes place to the demand centre, the more – the better you are. It's better for the system for maintaining, you know, voltage frequency, et cetera, it reduces the transmission costs and the risks, the significant environmental and technological risks.

So in – if one were to compare the risk of supply of energy from a thermal plant in Holyrood versus bringing hydro power from Labrador, it's a very good question and with not an obvious answer (inaudible).

MR. HOGAN: Logically, the closer it is the less risky it is?

DR. BRUNEAU: The closer it is but, clearly, hydroelectric power is a very – you know, it's been utilized for a century and I'm a tremendous advocate of it, make no mistake. I had – I probably became an engineer because of my interest in hydroelectric power. I, in fact, owned a revenue-free small company trying to enterprise in micro-hydroelectricity. I am an enthusiast of that.

MR. HOGAN: So you certainly don't have any bias towards hydroelectricity.

DR. BRUNEAU: I have – not in the least. I am a civil engineer. But the opportunity costs of making a bad decision that removes so much opportunity from the public is really what's at stake here. And, furthermore, that hydroelectric power in Labrador can be very well utilized elsewhere to do the same thing that it might have done here, but under more profitable circumstances, in my opinion.

And natural gas is a significant improvement environmentally from oil burning – I'm sorry, perhaps I've strayed from your question.

MR. HOGAN: Thanks.

Nalcor and Hydro basically have a monopoly on the electrical energy within the province. Are you aware of that?

DR. BRUNEAU: Not on distribution and – but on generation –

MR. HOGAN: Generation, okay.

DR. BRUNEAU: – in this sense, yes.

MR. HOGAN: So why would Nalcor be interested in allowing supply or allowing a natural gas competitor for energy into the market to affect its electrical energy monopoly? Did you consider that issue or have you thought about that issue?

DR. BRUNEAU: I need you to repeat that; I'm not sure I understood it.

MR. HOGAN: Well, if there's a monopoly on electrical energy –

DR. BRUNEAU: Yeah.

MR. HOGAN: – if you allow a competitor into that monopoly –

DR. BRUNEAU: Oh.

MR. HOGAN: – the competitor being natural gas.

DR. BRUNEAU: I don't – well, if a competitor is in it, then it's not a monopoly. I'm sorry; I don't mean to be difficult. I don't –

MR. HOGAN: Okay, break down the monopoly –

DR. BRUNEAU: – think I understand.

MR. HOGAN: – through the allowance of a –

DR. BRUNEAU: Oh, I see.

MR. HOGAN: – (inaudible) let's say that.

DR. BRUNEAU: You know, it depends on who they're rooting for, doesn't it.

MR. HOGAN: Yeah, I guess it does. Okay.

And that's another question, isn't it?

DR. BRUNEAU: It's another question.

MR. HOGAN: Okay. That's all the questions I have.

Thank you.

DR. BRUNEAU: Thank you.

THE COMMISSIONER: Nalcor – Former Nalcor Board Members?

MR. GRIFFIN: No questions, Commissioner.

THE COMMISSIONER: Thank you.

All right, thank you – oh, redirect, I'm sorry.

MR. LEARMONTH: No redirect.

THE COMMISSIONER: All right, thank you, Mr. Bruneau.

You're free to step down. Thank you for returning.

All right, where are we now, Mr. Learmonth?

MR. LEARMONTH: Eleven o'clock.

THE COMMISSIONER: So do you wish – is Mr. Paddon ready to go or are we starting this afternoon with Mr. Paddon?

MR. LEARMONTH: No, start –

THE COMMISSIONER: Start – okay, all right.

MR. LEARMONTH: Okay.

THE COMMISSIONER: So we'll take our break here now, then, for 10 minutes.

CLERK: All rise.

Recess

CLERK: All rise

Please be seated.

THE COMMISSIONER: All right, Mr. Learmonth.

MR. LEARMONTH: Thank you.

The next witness is Terry Paddon.

THE COMMISSIONER: Mr. Paddon, do you wish to be sworn or affirmed?

MR. PADDON: Affirmed.

THE COMMISSIONER: Could you stand please?

CLERK: Do you solemnly affirm that the evidence you shall give to this Inquiry shall be the truth, the whole truth and nothing but the truth?

MR. PADDON: I do.

CLERK: Please state your name for the record.

MR. PADDON: Terry Paddon.

THE COMMISSIONER: That's okay. That's fine.

Everything is pretty sensitive here today, by the sounds of things.

UNIDENTIFIED MALE SPEAKER: Yeah.

THE COMMISSIONER: Okay, go ahead, Mr. Learmonth.

MR. LEARMONTH: Okay, first I'd like to enter exhibits into evidence for the record.

They're P-00922 and P-00960 through P-00995.

THE COMMISSIONER: All right. Those will be marked as numbered.

You can proceed when you're ready.

MR. LEARMONTH: Okay.

Mr. Paddon, could you advise us of your education after high school?

MR. PADDON: Yes, I completed a Bachelor of Commerce degree from Memorial University. I graduated in 1978 and I then embarked on obtaining my chartered accounting designation, which I got in 2000 and – or 1980.

MR. LEARMONTH: Okay. And after you received your CA designation, what work did you undertake?

MR. PADDON: I worked in a couple of areas in the private sector, mostly in public accounting but also as a controller in a local company and, ultimately, I ended up with the Department of Finance in 1990.

MR. LEARMONTH: And did you remain at the – as an employee of the Department of Finance from 1990 until June 1, 2012?

MR. PADDON: That's correct.

MR. LEARMONTH: Okay. So what type of position – I take it that you're – we know that in June 1, 2012 – actually since 2004 you were the deputy minister.

MR. PADDON: That's correct.

MR. LEARMONTH: What positions did you work at prior to being appointed deputy minister of Finance in 2004?

MR. PADDON: When I started in 1990, I started in the tax administration branch as a tax audit manager. I was there for about a year and then I moved to the tax policy division and I worked as a policy analyst for a few years. I can't remember how long. Then became director of tax policy and then moved up to assistant deputy minister of Fiscal and Tax Policy.

MR. LEARMONTH: Yeah. And then –

MR. PADDON: And then became deputy minister.

MR. LEARMONTH: In 2004, and you –

MR. PADDON: Early 2004, yeah.

MR. LEARMONTH: – maintained that continuously until June 1, 2012.

MR. PADDON: 2012, yeah.

MR. LEARMONTH: And can you confirm that after – on June 1, 2012 you were appointed as Auditor General of the province?

MR. PADDON: That's correct.

MR. LEARMONTH: And that you remained in that position continuously until your retirement on October 31, 2017?

MR. PADDON: That's correct.

MR. LEARMONTH: Yeah.

I'm just going to run by a few of the ministers that you would have served under while you were at Finance and the dates are – as best as I can find them. I'd just like to see if you can confirm the accuracy of them.

MR. PADDON: Mm-hmm.

MR. LEARMONTH: I have that from 2004 to 2006 it would have been Loyola Sullivan.

MR. PADDON: I can't remember the end date but certainly that sounds about right, yeah.

MR. LEARMONTH: Okay. And then December 2006 until October 2008: Tom Marshall.

MR. PADDON: That's about right, yeah.

MR. LEARMONTH: And then October 2008 to October 2009: Jerome Kennedy

MR. PADDON: That's correct.

MR. LEARMONTH: And then October 2009 to January – well until you left in August – that would be Tom Marshall again.

MR. PADDON: I left in June, yeah.

MR. LEARMONTH: In June, sorry, yes.

Now, I want to ask you some questions about the – generally about the reviews, if any, that were completed by the Department of Finance for the Muskrat Falls Project.

MR. PADDON: Hmm.

MR. LEARMONTH: And I want to start off by asking you whether while you were deputy minister of Finance, whether the Department of

Finance ever conducted a review of cost estimates for the Muskrat Falls Project?

MR. PADDON: I guess I would have to – it really would depend on how you would define review.

MR. LEARMONTH: I'm talking about a review of the project cost estimates.

MR. PADDON: Knowing what the estimate of costs was is not the same as a review of the costs.

MR. LEARMONTH: That's right.

MR. PADDON: So if your question is: Did the Department of Finance go into Nalcor and do a fairly in-depth review of how those costs were built up? The answer would be no.

MR. LEARMONTH: At no time while you were – so that would – that answer would apply to the financial information that's available on – for the November 18, 2010 term sheet. Correct?

MR. PADDON: That's correct, yeah.

MR. LEARMONTH: There was new – no detailed review done of the project cost estimates?

MR. PADDON: Not by the Department of Finance, no.

MR. LEARMONTH: And that would – I presume you would give, then, the same answer for the DG2 estimates and the DG3 estimates?

MR. PADDON: I can only speak to the DG3 estimates, up to the point that I left.

MR. LEARMONTH: Yeah.

MR. PADDON: 'Cause there would've been some work done subsequent to when I left. I think DG3 was in late 2012.

MR. LEARMONTH: Okay. So, anyway, there were – to your knowledge, until you left there were no –

MR. PADDON: We didn't do – we – well, I mean, we wouldn't have the capacity, really, to

go in and have a detailed review of the costing – what’s built up from the cost or the costing estimates coming out of Nalcor.

MR. LEARMONTH: So you wouldn’t have had the resources, the capability to conduct such a review of project cost estimates?

MR. PADDON: Not to the level of detail I think you’re thinking of.

I mean, really, what you’re talking about is looking at the detailed engineering and saying, you know, are we satisfied that, you know, it’s – the engineering is done properly and that everything that should be included is included.

I don’t think we would have – you know, I’m not even sure where we would start if somebody asked us to do that. We would have to really go out and hire the expertise ourselves because, yeah, essentially, I guess the Department of Finance, in its simplest form, is a department of accountants and economists, not of engineers or people with the expertise that would be required, I think, to look at cost estimates in that level of detail.

MR. LEARMONTH: Okay.

So Finance did not conduct any review of the cost estimates for the Muskrat Falls Project and if it had – if Finance had been asked to do such a review, it would not have been able to do so without hiring outside experts. Is that a fair way to put it?

MR. PADDON: That’s probably a fair way to put it.

Typically, if somebody is coming to government looking for some kind of funding, it would come through – a department would sponsor it. It would come through some of the – one of the line departments. They would typically be the ones that would ensure that whatever was required to be done in terms of analysis or costing and that sort of thing, was done. Then the – sort of, the output of that would come to the department. Muskrat Falls is a little different project, I mean, just by the size and the significance of it, but we would expect when somebody came to us, that they would’ve had

the legwork done in terms of the costing and review and those sorts of things.

MR. LEARMONTH: Yeah.

And you wouldn’t have had the capability to conduct such an assessment of the project cost estimates, even if you’d been asked to do so?

MR. PADDON: Even if we’d been asked. Yeah, we would’ve had to – essentially, we would’ve had to hire somebody to do that for us.

MR. LEARMONTH: But I take it you weren’t asked to conduct any such review. Is that right?

MR. PADDON: No, that’s correct.

MR. LEARMONTH: At any time while you were at the Department of Finance.

MR. PADDON: No, that’s correct.

MR. LEARMONTH: Now, it’s my understanding that the – that you – that the Department of Finance, during your tenure when you were deputy minister, did provide some work with respect to the Muskrat Falls Project, but that would be things such as analyzing the financial and economic impact of the project to assist the government on decision-making processes?

MR. PADDON: That’s right. That’s correct. We would’ve taken the output that Nalcor would’ve produced and sort of determined sort of how – what kind of income streams would come from the project, you know, sort of, from a direct basis, and an indirect and (inaudible). So all the economic spinoffs that would’ve occurred as a result of the project.

MR. LEARMONTH: Yeah, so – and that would – and also, would that be a macroeconomic analysis, or would that be something different?

MR. PADDON: Yeah, well, it would be an economic analysis, probably more of a microanalysis, I suppose, but it might throw off some of the macro indicators.

MR. LEARMONTH: Okay.

Does the Department of Finance review, in the ordinary course of its work, other submissions for approval in terms of financing? Like, if someone – if there's a proposal to build a hospital, for example, does the Department of Finance undertake a review of the project cost estimates in that situation?

MR. PADDON: No, and that's similar to what I was saying just a few minutes ago. If a proponent, for instance, the Department of Health, came forward saying they wanted to buy or construct a hospital, they would be the ones that would do the – you know, arrange to have the engineering work done, all the costing. It would then come to us, but we wouldn't go back to the department and relook at the engineering estimates that came out of the department.

MR. LEARMONTH: All right. So it would be – you would do – in addition to the work we just described, I take it you would prepare models using outputs to determine how much GDP would be – were to be generated –

MR. PADDON: That's correct, and how much –

MR. LEARMONTH: – how much employment would be generated, how much tax revenue would be generated, an economic impact analysis, in other words.

MR. PADDON: Yeah, those sorts of things, yes.

MR. LEARMONTH: Yeah. Okay. So that would be the extent of the work that the Department of Finance conducted for the Muskrat Falls Project. Is that correct?

MR. PADDON: When it comes to modelling and those sorts of things, I think it's fair to say that when we looked at the project profile or sort of, the business case that Nalcor had brought forward, certainly we were in considerable discussions over the period of time in terms of looking at identifying where the risks might be and, you know, pushing to Nalcor, sort of, how are you going to mitigate those risks.

And, you know, there were sort of, in rough terms, I mean, probably three areas where we saw risk: one was on the costing; two was on

some of the assumptions, particularly around oil prices and the export revenue from the electricity. So we were – certainly realized that there was risk on those three fronts that come to my mind. And there was, I guess, a fair bit of discussion both just with the Department of Finance, but I think broadly just government officials and elected officials as well with Nalcor on those issues.

MR. LEARMONTH: But you relied – your department, I take it, relied on Nalcor to provide or to come up with accurate project cost estimates.

MR. PADDON: That's correct. That's correct.

MR. LEARMONTH: Right.

And are you – do you know whether any other department of government for the Province of Newfoundland and Labrador conducted a detailed examination of the estimated project costs of the Muskrat Falls Project before sanction?

MR. PADDON: The only other department that would, would be the Department of Natural Resources, but I'm not aware that they did.

MR. LEARMONTH: You're not aware – you have no knowledge whatsoever that they did.

MR. PADDON: No, that's correct.

MR. LEARMONTH: And you're aware that before the project was sanctioned, the Department of Natural Resources retained the services of Manitoba Hydro International to perform some form of a review of some of the economic – or the business-case aspects of the project?

MR. PADDON: That's correct, yes. I was aware of it.

MR. LEARMONTH: Yeah.

Well, I don't know if you're aware, but last week MHI representatives testified here that, due to deletions made by government from the scope of work that MHI had proposed to government for the DG3 review, that MHI did not conduct a detailed examination of the

estimated project costs of the Muskrat Falls Project before sanction. Are you aware of that?

MR. PADDON: I'm aware because I read it in the media over the last week or so.

MR. LEARMONTH: Yeah.

MR. PADDON: Yeah. I wasn't aware of it prior to that.

MR. LEARMONTH: Yeah.

So, as a result, if no one in government – if no department in government conducted the review that I've been speaking of – of the project costs – and MHI didn't conduct a review, then stated plainly and simply, there was no independent review of the project costs before sanction. Do you agree with that?

MR. PADDON: Based on what you're saying, yeah, I would agree with that, yeah.

MR. LEARMONTH: Okay. Well, what – you say based on what I'm saying. I'm saying that MHI –

MR. PADDON: I'm not aware that there was any other –

MR. LEARMONTH: Yeah.

MR. PADDON: – review, so...

MR. LEARMONTH: Yes.

And do you agree that the Muskrat Falls Project was the – far and away the biggest financial obligation ever undertaken by this province?

MR. PADDON: I would say that's a fair statement, yes.

MR. LEARMONTH: Yeah.

Do you find it worrying or troubling that there was no review done by government or by MHI of the – Nalcor's project costs?

MR. PADDON: Probably in retrospect I do –

MR. LEARMONTH: Yeah.

MR. PADDON: – I don't think at the time there was as much concern. Yeah, I think we understood that, you know, it was a big project, there was lots of moving parts. I think generally the province – officials, in any event – took some – comfort is the right word, but for the fact that, you know, Nalcor had, you know, a reasonable amount of expertise, but that they had also hired a fair bit of expertise through companies like SNC-Lavalin, which, you know, had a fairly strong track record in terms of these types of projects. So I think that's where the province probably took the greatest amount of comfort, that Nalcor had reviewed – or had taken on that level of expertise.

MR. LEARMONTH: But isn't there an oversight role for government over Nalcor? Wasn't there at the time of sanction an oversight role? In other words, I would suggest to you that it would be reasonable for the people of Newfoundland and Labrador to believe that their government would protect them before sanctioning this project by insisting that a detailed examination of the estimated project costs of the Muskrat Falls Project was carried out before sanctioning. Do you think that's – would be a reasonable expectation for the people of Newfoundland?

MR. PADDON: Probably in retrospect, but at the time I don't think anybody really thought that was, I guess, necessary.

MR. LEARMONTH: Yeah. Well, why not?

MR. PADDON: As I said, I think there was some comfort taken from the fact that the expertise at Nalcor and the expertise that they had hired was sufficient to provide a level of comfort on the estimates.

MR. LEARMONTH: Yeah. But in retrospect, you realize that there's, maybe, a problem with relying on Nalcor for that purpose without conducting an independent, cold eyes review of the project costs?

MR. PADDON: Perhaps in retrospect, I mean, given all that's happened since, yeah.

MR. LEARMONTH: Yeah.

Did – I don't want to get you to repeat everything you've said, because you've said it clearly, but I just want to confirm a couple of points.

Did Nalcor ever present to government the DG2 package of documents?

MR. PADDON: I don't think I can answer that. I don't think I know the answer to that.

MR. LEARMONTH: You – not that you're aware of?

MR. PADDON: Not that I'm aware of.

MR. LEARMONTH: And the DG3?

MR. PADDON: I wasn't there at the time.

MR. LEARMONTH: He wasn't there.

Do you recall, while you were deputy minister, receiving any independent project reviews or reports by consultants retained by Nalcor?

MR. PADDON: No, I don't.

MR. LEARMONTH: None? Were any such reports requested? In other words –

MR. PADDON: Anything of that nature would've come through likely the Department of Natural Resources.

MR. LEARMONTH: Wouldn't go through the Department of Finance?

MR. PADDON: Not necessarily, no.

MR. LEARMONTH: But you –

MR. PADDON: Natural Resources were the point of contact –

MR. LEARMONTH: Yeah.

MR. PADDON: – between government and Nalcor.

MR. LEARMONTH: But wouldn't it be reasonable to expect that the Department of Finance would, you know, have some role in looking at the documentation from Nalcor?

MR. PADDON: But we did see documentation from Nalcor. But in terms of independent reviews, I don't recall seeing anything.

MR. LEARMONTH: Okay. Now, the – as I've stated earlier, and you're aware of it, November 18, 2010, the term sheet between Emera and Nalcor was signed. And you can assume that the following facts I'm going to give you are true for the purpose of this question.

MR. PADDON: Okay.

MR. LEARMONTH: That in support of Nalcor's cost estimate preparation for DG2, Nalcor engaged Westney as a consultant in the United States to complete a QRA or a quantitative risk assessment. The amount of contingent equity or management reserve for the strategic risk identified by Westney was in the \$300 to \$600 million range at P50.

And in a draft – not the final, but a draft – DG2 document, Nalcor chose to include an allowance of \$300 million for a strategic risk; that would be the bottom end of the range proposed by Westney –

MR. PADDON: Yeah.

MR. LEARMONTH: – but still within the range.

And the information we have is that during the negotiations leading up to the term sheet with Emera, November 18, 2010, Nalcor's executive made a conscious, deliberate decision to remove the strategic risk allowance recommended in the DG2 QRA in order to address or respond to Emera's concern regarding its ability to sell the strategic risk concept to the Nova Scotia regulator, the UARB.

So the information is that the – this amount was removed and that, therefore, when the \$5-billion estimate was communicated to the public on November 18, there was nothing for strategic reserve or strategic risk in that figure.

Now, assuming those facts I just presented to you, does that give you any concern, that the government was saying it's – our share of the cost is \$5 billion, but in fact, an amount for strategic risk, in the range of 300 to 600, was

not, one, not included in the 5 billion and, two, wasn't even mentioned? Does that give you – you're a senior public service, or you were, and does that give you any cause for concern?

MR. PADDON: Yeah, I think that gives me cause for concern. I think there was an expectation that there was an estimate for contingencies, if you want to call it that, built into the estimates, and I don't recall anybody ever saying that that contingency or that reserve had been eliminated or deleted.

MR. LEARMONTH: Do you believe that that strategic – the exposure for strategic risk between \$300 and \$600 million should've been disclosed by Nalcor to the government?

MR. PADDON: I think it should've, yes.

MR. LEARMONTH: Yeah, but you're not aware that it was.

Now, I wanted to ask you about the – you're – are you saying that you weren't aware of this \$300- to \$600-million strategic risk at the time of the signing of the Nova Scotia – the term sheet?

MR. PADDON: You say that the 300 to 600 wasn't included?

MR. LEARMONTH: No, but I'm saying were you aware that there was an amount of \$300 to \$600 million that was on the table for –

MR. PADDON: I don't recall the amount, but I certainly knew that there was an amount built into the cost estimates –

MR. LEARMONTH: Yeah.

MR. PADDON: – for risk.

MR. LEARMONTH: Yeah. But – so you – were you aware of this \$300 to \$600 million –

MR. PADDON: I don't recall specifically those numbers. I just recall that there was an amount.

MR. LEARMONTH: Yeah. Because I just – I'll put it right to you directly that Mr. Sturge, Derrick Sturge, when he testified, he said that you were aware of that.

MR. PADDON: Well –

MR. LEARMONTH: You personally were aware of it.

MR. PADDON: Depends. I probably – I am aware that there was an allowance in there for risk; I just can't remember specifically the amount.

MR. LEARMONTH: Okay.

MR. PADDON: That's all I'm saying.

MR. LEARMONTH: Okay. But did you assume that if there was an amount that had been arrived at for risk, whether it's tactical risk or strategic risk, did you believe that it would've been included in the \$5-billion figure?

MR. PADDON: Yes.

MR. LEARMONTH: Okay.

MR. PADDON: Yeah.

MR. LEARMONTH: Thank you.

Now, you were the lead person at the Department of Finance for overseeing the Muskrat Falls Project as deputy minister. Is that a fair comment?

MR. PADDON: Fair comment, yeah.

MR. LEARMONTH: Yeah. And who was the lead person in – for the Muskrat Falls Project in the Department of Natural Resources?

MR. PADDON: Charles Bown, I guess, was probably the primary contact. His roles probably changed somewhere along the line. I just – I can't remember the details, but I – and I'm not sure who – whether Charles was deputy at the time or if he was associate deputy or an assistant deputy, but essentially Charles was the person that was, I guess, tasked with being the Muskrat person.

MR. LEARMONTH: Going back to, say, the beginning of 2009 or thereabouts, please describe the relationship that existed between Nalcor and the Department of Finance. What type of a relationship was it? Was it a

relationship that called for periodic meetings? Was it a good relationship? Was it a strained relationship? Just give us some description.

MR. PADDON: No, I wouldn't have called it a strained relationship. I would've called it a fairly good working relationship.

MR. LEARMONTH: Yup.

MR. PADDON: We met on a regular basis. You know, it wasn't – I mean, it wasn't set in stone, but as need be, we would meet. Depending on the particular issue that was arising, I mean, you'd meet more often, but certainly not a strained relationship.

MR. LEARMONTH: No.

The – and who did you liaise with or contact at Nalcor for the purpose of these meetings?

MR. PADDON: Well, it would've been a variety of people, but I would say primarily Derrick Sturge would've been the point of contact, but along the way, it would've been people such as Jim Meaney, maybe, and Mark Bradbury if he was – I'm not sure when Mark left, but those three. And to a lesser extent, Ed Martin if – depending on a particular issue or what might – would come up. But if I was contacting Nalcor, it would typically be probably Derrick Sturge.

MR. LEARMONTH: And would – the meetings that you held with Nalcor representatives, would they have been held at the Confederation Building or at the Nalcor offices or both?

MR. PADDON: Probably both, but I would say primarily at the Nalcor office.

MR. LEARMONTH: And would you – at these meetings starting in 2009 – I'm not going to get – you know, I'm not going to ask you to give a precise date, but would you have been accompanied by any other representatives of the Department of Finance or government when you attended these meetings?

MR. PADDON: Quite possibly, yeah. It would've been a mixed bag, either by myself or with other department officials or other

government officials. But probably mostly Department of Natural Resources, if I had to guess, (inaudible).

MR. LEARMONTH: Yeah.

Were you aware that sometime around, say, by 2010, Nalcor had retained PwC for – to provide financial and other advice?

MR. PADDON: I was, yes.

MR. LEARMONTH: Yeah. And how did you become aware of that? Was that something Mr. Sturge would've advised of, or would you have met with PwC?

MR. PADDON: I think I was involved at the time when they went through the selection process for financial advisors.

MR. LEARMONTH: And just be a little bit more precise than I was in describing the purpose of Nalcor's retaining PwC. What was the purpose of it, as far as you knew?

MR. PADDON: My recollection is – was probably two-fold, maybe, if I could say it that way. One was to – they did a fair bit of modelling work, financial modelling, for Nalcor around the project and the costs and outputs and those sorts of things, but they were also retained to provide advice on how the project could be financed.

MR. LEARMONTH: Yeah. And you had an active role in that. Is that correct?

MR. PADDON: That's correct, yeah.

MR. LEARMONTH: Not in cost estimates, but –

MR. PADDON: No, in –

MR. LEARMONTH: – in the financing of the project?

MR. PADDON: Not necessarily with the Nalcor debt, but certainly, I mean, the equity from the province –

MR. LEARMONTH: Yeah.

MR. PADDON: – would've come through us.

MR. LEARMONTH: And this would be something that would have to be discussed, I take it, with credit-rating agencies: Moody's, Standard & Poor's and so on?

MR. PADDON: Yes, from a couple of perspectives. I mean, one, you had the Nalcor debt that publicly got rated, and then, of course, the fact that the province was providing equity had an impact on the province's credit, so they would've dealt with, individually, both Nalcor and the province.

MR. LEARMONTH: Okay.

Do you recall travelling up to Ontario with Mr. Sturge and others to meet with credit-rating agencies?

MR. PADDON: I do, yeah.

MR. LEARMONTH: On how many occasions before sanction?

MR. PADDON: With the credit-rating agencies? One that I can remember, but we met with three agencies.

MR. LEARMONTH: And when was – obviously you wouldn't meet with them together. There'd be three separate meetings.

MR. PADDON: Three separate meetings.

MR. LEARMONTH: When would that have been?

MR. PADDON: My recollection is it was sometime in the fall of 2011, maybe.

MR. LEARMONTH: Yeah.

MR. PADDON: I'm guessing.

MR. LEARMONTH: So you went up as a contingent, one contingent, one team?

MR. PADDON: That's – yeah, that's correct. There was a greater contingent from Nalcor, and I believe also Charles Bown and I were there as well.

MR. LEARMONTH: So you – at these meetings in – I guess it was in Toronto, you would discuss the credit rating for the debt that was gonna be taken on by the Government of Newfoundland and the credit rating that was gonna be taken on by Nalcor?

MR. PADDON: Well, primarily this was a Nalcor show to get a shadow or an indicative rating on the debt that they were gonna raise themselves. This wasn't related to the province's credit rating. So this was really their show in terms of how the project was going to look, you know, going through the project parameters, those sorts of things, timelines and complete sort of review of the overall project, but it was really designed to get a rating on the money that Nalcor intended to raise for the project.

MR. LEARMONTH: But is an indicative rating the same as a shadow rating?

MR. PADDON: Same thing, yeah.

MR. LEARMONTH: A preliminary –

MR. PADDON: Yeah.

MR. LEARMONTH: – just a –

MR. PADDON: Yeah.

MR. LEARMONTH: – testing-the-wind sort of thing.

MR. PADDON: Essentially, yes.

MR. LEARMONTH: Okay.

So you went to this meeting in Toronto, and what was the result? Do you know when the meeting was?

MR. PADDON: As I say, it was in the fall of 2011. September, I believe, but ...

MR. LEARMONTH: And what was the result of these meetings in Toronto with the credit-rating agencies, to your recollection?

MR. PADDON: My recollection is that the – I believe all three credit-rating agencies that we met with provided a fairly creditworthy – a fairly good rating for the project, for the debt.

MR. LEARMONTH: At this time in – I think you said the fall of 2011, did you – what was generally the financial and economic situation – fiscal situation of the province?

MR. PADDON: I would say at that point in time the financial situation in the province was probably as good as it had been – probably ever been. We'd come off quite a number of years where there had been fairly substantial surpluses in the province. The resource sector was fairly robust, throwing off a fair bit of revenue over that period of time. Oil prices were high. The province, you know, had been paying off its debt as it was coming due, so it was reducing its indebtedness, and it was amassing a fair bit of cash as well over that period time.

So, in a general sense, it was – the economic circumstances and the financial circumstances of the province were fairly good.

MR. LEARMONTH: So it was an opportune time to borrow, I take it, then.

MR. PADDON: Yeah, if there was ever a good time, that would've been it. And the other side of it, too, is interest rates were, you know, really at an all-time low at the time.

MR. LEARMONTH: Right.

At any time when you were – when you served as deputy minister, did you have any concern that Nalcor may not have been making full disclosure to government about the cost of this project?

MR. PADDON: (Inaudible.)

MR. LEARMONTH: Never?

MR. PADDON: No.

MR. LEARMONTH: No.

And I know you've said that the Department of Finance did not conduct any independent review and that – of the cost estimates and that you're not aware of any other department that did, but was there any oversight done on the question of risk exposure that this project could present to the province's fiscal situation?

MR. PADDON: I guess from the time of, certainly, 2010 up to the time I left, the clerk at the time had established – I wouldn't call it an oversight committee, but, you know, a committee of senior officials within the province to essentially meet on a regular basis – and it was once a week, as I recall – to, I guess, ensure that things were being dealt with in a timely manner, that everybody was aware of what was going on in terms of the project and how it was progressing and the information that was being generated out of Nalcor, those sorts of things.

So that was, you know, a fairly significant committee. I mean, there were probably about eight or 10 deputies on the committee, plus a representative from Nalcor.

MR. LEARMONTH: But was any concern – was there any focus on the concern about the possibility, if not, probability, that a megaproject like this would go over budget?

MR. PADDON: I think there was a fair bit of concern that the costs – you know, that there might be cost overruns on a project of this size. One of the – and there were, I would say, considerable discussions with Nalcor, both from officials and with the political side of things to, I guess, get a sense from Nalcor as to how robust the estimates were and, you know, how are they – what was their plan to sort of mitigate their risk, if you want to say that.

One of the messages I recall from Nalcor was that between DG2 and sanction, which was DG3, their expectation was that they would have, I guess, nailed down to a great extent a lot of the major costs of the components of the project through either contracts or bids. So they would have a fairly good handle on what the pricing was for all the major components; so that by the time you got to DG3 or sanction, you would have a fairly solid comfort that what they had in terms of cost was gonna be the final output.

MR. LEARMONTH: So, you – based on what Nalcor advised – well, you and government – your understanding is that you thought that the cost estimates were solid, accurate and robust?

MR. PADDON: That's right, and that there was provision in there for some contingency in any

event, plus that you had this sort of a view that by the time you got to sanction, things would be nailed down through tenders and pricing.

MR. LEARMONTH: But I suggest to you it's one thing for Nalcor to, you know, have confidently assured you of these points, but it's another thing to verify this. I mean, it seems to me, and I would suggest to you, that it's irresponsible – yes, irresponsible – for government to simply accept the word and the figures presented by Nalcor on a project of this size, given its impact on the province, without doing a detailed, independent examination.

MR. PADDON: In retrospect, probably should have. Along the way there were a couple of things that did occur. There was certainly concern that perhaps the oil-price assumption needed to be – get a better comfort as to the sort of the – I guess the logic behind the oil-price assumption, and also the risks around, perhaps, the export sales for power.

At one point in 2010, we made a trip to New York to meet with a couple of consultants who had expertise in – one in oil price and the other in energy markets –

MR. LEARMONTH: Mm-hmm.

MR. PADDON: – to try to get a sense from them as to where their thoughts were on terms of the long-term price of oil.

There was also the issue at that point, as I recall, that fracking was starting to become –

MR. LEARMONTH: Mm-hmm.

MR. PADDON: – a bigger issue in the States, so there's some uncertainty as to what impact that was gonna have, one, on oil price, but two, on energy – on electricity markets as well.

So we went down there to talk to sort of some expertise to raise the comfort level, I guess. And there was nothing in my recollection, that came out of those, that gave us any real pause to reassess, sort of, those two elements.

Later on, Charles and I had recommended that there – that government do have an independent look at some of the assumptions that went into

it. I don't – to be fair, I don't think we were really thinking about the costing as much as some of the other assumptions, like the oil price and the electricity pricing and those sorts of things – demand forecast.

MR. LEARMONTH: Well why weren't you thinking about the cost of it? I mean, I know you're talking about the – you did some verification; you went to New York and so on. But I'm talking about the project costs. You know, it – anyway.

MR. PADDON: My recollection is – I remember the note. We did it (inaudible) so would have been 2011, I think. We may have been thinking about the cost. I – my recollection of the details around, you know, how it developed and what the thought process was is a bit sketchy at this point.

MR. LEARMONTH: Do you agree that Nalcor operated with unusual independence, given that it was a wholly-owned Crown corporation?

MR. PADDON: I'm not sure how you would define unusual, but –

MR. LEARMONTH: Well –

MR. PADDON: – they certainly did have some level of independence for sure, yes.

MR. LEARMONTH: Yeah. And did you agree that the level of independence that they had was justified and appropriate?

MR. PADDON: I don't know if I would agree one way or the other. I'm not –

MR. LEARMONTH: Now, we've heard evidence –

MR. PADDON: – (inaudible).

MR. LEARMONTH: – for example, from Mr. Todd Stanley that – he used the words that, you know, it was – Nalcor was operating as a – it was a fiefdom. Did you hear his evidence in that?

MR. PADDON: I did, yes.

MR. LEARMONTH: Do you have any comment on the use of the term fiefdom in describing the way that Nalcor was – it was operating prior to sanction?

MR. PADDON: I'm not sure I would have used the word fiefdom though.

MR. LEARMONTH: Well what do you think would be a more appropriate word?

MR. PADDON: I don't know if there's any word. I – they were a Crown corporation. They had a certain amount of autonomy to operate. They were essentially set up that way, to have that somewhat level of autonomy. But I'm not quite sure I would have gone with a fiefdom.

MR. LEARMONTH: You wouldn't call it a fiefdom? No.

And I'm just gonna quote – Mr. Stanley, in an interview on August 31, 2018 said, I'm quoting page 20, Mr. Stanley – and this is Exhibit 00790, if you bring up page 20.

“You know, there were instances where we went over to Hydro, or Nalcor, for a briefing on something as to how the Muskrat project would be structured – this was fairly early days – and they would tell us it's gonna be A, B or C.

“I remember a meeting where we went – and I can't remember what the briefing was, the topic of it – but the instructions were, like, you know: And it's gonna work like this. And the government people were sitting there and were like: Well, who said it's going to work like that? That's, you know, the perceived, at least, concerns about how that would be.

And Nalcor's response was, this was approved by the premier. And one of the Natural Resources people who was there said: Oh, that's interesting, I don't remember writing the policy analysis on that. The comment was facetious. There was no policy analysis on it. Right? It never came through the experts at Natural Resources to say: Okay, here's the wrinkles, here's the hairs on that, here's the problems with it.

Nalcor came and got approval from the Premier's office. We're gonna do this; marched

off and had their instructions and their approvals. So that was unusual.”

Did you – you heard Mr. Stanley give that evidence – so you're aware he gave that evidence?

MR. PADDON: I am, yeah. Yeah.

MR. LEARMONTH: So do you have any comment on what he says here?

MR. PADDON: Well, I wasn't at – I can't speak to the specific meeting that Mr. Stanley was referring to –

MR. LEARMONTH: Yeah.

MR. PADDON: – I don't think I was there. But I think it's fair to say that, you know, Nalcor did have a little, I guess, direct line into, probably, the Premier's office at the time. So ...

MR. LEARMONTH: Would that be Premier Williams and Dunderdale?

MR. PADDON: Certainly Premier Williams; I'm not sure about Premier Dunderdale.

MR. LEARMONTH: Okay.

Well, with – was this a usual situation – that there would be a direct line of communication between the Premier's office –

MR. PADDON: Not –

MR. LEARMONTH: – and a Crown corporation?

MR. PADDON: – not typically, I wouldn't think. I suspect it was probably because of the significance of the project itself.

MR. LEARMONTH: Yeah. (Inaudible) –

MR. PADDON: That relationship had developed.

MR. LEARMONTH: Yeah.

And then later, on page 21, the transcript – Mr. Stanley says – he says: “That would presume

insights in Minister Kennedy's thinking that I'm not sure I'm gonna put on the record."

And I say: "Okay."

And then he says: "He, I think, viewed them as being, as a number of people in government did as you're getting into 2000 – I can't remember when he was there 2011, '12, I think. You know, they were sort of viewed as being a little bit of a runaway train that we didn't have any control over. You know, so they'd call over and asked, say – government – well, I need the following 15 things for the project to go ahead and I need it all done by Tuesday."

Now, the term "runaway train." Do you have any comment on the use of that term?

MR. PADDON: No.

MR. LEARMONTH: No.

Do you agree with – that it's an appropriate term to use to describe the relationship between Nalcor and government?

MR. PADDON: I would think that's fairly strong.

MR. LEARMONTH: Fairly strong.

MR. PADDON: Yeah. I wouldn't have called them a runaway train. I would suggest that they were probably under a fair bit of pressure to move the project along. So whether that created – resulted in them demanding information or looking for information fairly quickly, well that's perhaps the nature of the beast.

MR. LEARMONTH: Yeah.

And page 22, Mr. Stanley, says: "You know, most of the – I think most of the government, civil service, felt disrespected by – they didn't perceive that Nalcor had any idea what the role of Natural Resources was. The Department of Natural Resources would be perceived to be a check on Nalcor, what they were coming in with, and instead, they were assumed to be a cheerleader. So there's a fair amount of exasperation."

Did you have any sense of exasperation as to the relationship between – you know, that Nalcor had with government?

MR. PADDON: No.

MR. LEARMONTH: Never?

MR. PADDON: No, not exasperation.

MR. LEARMONTH: Well what? If not exasperation, what?

MR. PADDON: Well, I mean, it was a fairly large project that they were trying to bring to fruition. I don't think we thought we were – we weren't exasperated by the information that they were looking for, or of that nature. I just don't think exasperation is the right word.

MR. LEARMONTH: Okay, well you didn't feel it anyway.

MR. PADDON: No.

MR. LEARMONTH: All right.

I'd like to bring up the Grant Thornton report, which is P-00014. If we could turn to page 9.

Now, line – beginning on line 4 – you've got that do you, Mr. Paddon?

MR. PADDON: Yep.

MR. LEARMONTH: So this is the Grant Thornton report.

MR. PADDON: Yep.

MR. LEARMONTH: You're familiar with that, we reviewed this at your interview – or reviewed parts of it.

MR. PADDON: Little –

MR. LEARMONTH: Yeah.

MR. PADDON: – pieces of it, yeah.

MR. LEARMONTH: Well, this part we did.

It says beginning on line 4: "Nalcor excluded approximately \$500 million of strategic risk

exposure from the” – actual – “capital cost estimate for the CPW calculation. We have been informed by Nalcor’s Project Team, that strategic risk exposure was to be funded through contingent equity from GNL.”

Now, this \$500 million of strategic risk – the actual figure is 497 million, it’s just rounded there.

MR. PADDON: Mm-hmm.

MR. LEARMONTH: This came from a risk assessment report prepared by Westney, and it was not – the risk assessment report from Westney was given to Nalcor prior to sanction.

Were you aware at any time that – of this \$500 million strategic risk?

MR. PADDON: It doesn’t ring a bell.

MR. LEARMONTH: Doesn’t ring a bell.

And were you aware that this \$500 million of strategic risk – or any part of it – was not included in the \$6.2 billion capital cost estimate at the time of sanction?

MR. PADDON: No.

MR. LEARMONTH: Well, does that give you any concern?

MR. PADDON: Well if, you know – just reading the sentence from line 4 to 6 – or the sentences – shifting it from cost to essentially the province doesn’t seem to make – the logic doesn’t seem to follow. You know, if you expect your costs to be X regardless of whether it’s your actual cost or what you expect there might be some risk around, it still should be built into the cost.

MR. LEARMONTH: It should be included in the –?

MR. PADDON: I would think, yes.

MR. LEARMONTH: Yeah. And/or, alternatively, at least disclosed to government. Do you agree?

MR. PADDON: Absolutely, yes.

MR. LEARMONTH: Yeah. So if you’re gonna say our capital cost estimate is 6.2; however, we want you to know that there’s another \$500 million that’s been recommended, you know, from our – we want you to know about that and you can handle it as you want. I take it that would be acceptable too?

MR. PADDON: Right.

MR. LEARMONTH: But if neither of those things occurred, do you have a – would you have a problem with that?

MR. PADDON: I would, yes. I mean, if you follow this logic to its conclusion – you know, if you’re going to exclude anything that’s gonna be funded by government equity, you would include the first \$1.5 to \$2 billion that government is gonna, you know – so exclude that from your cost as well. It just doesn’t make sense.

MR. LEARMONTH: It doesn’t make sense. And you didn’t know about that at any time until you – or at least –?

MR. PADDON: I saw this when –

MR. LEARMONTH: When you saw it in the Grant Thornton report?

MR. PADDON: That’s right.

MR. LEARMONTH: And what was your reaction to learning this?

MR. PADDON: I was a little surprised.

MR. LEARMONTH: A little surprised?

MR. PADDON: Yeah, well, that’s just my way.

MR. LEARMONTH: Okay. You’re – an understatement perhaps?

MR. PADDON: Understatement (inaudible).

MR. LEARMONTH: Understatement. Okay. Thank you.

Now, could we turn to the bottom of page 64 of the GT report at P-00014?

Do you see – Mr. Paddon, do you see at the bottom of that paragraph, 24, there's a graph, a chart –

MR. PADDON: Yes.

MR. LEARMONTH: – P-factors. And then turn up to page 65, please.

Okay. Just read out lines 3 to 9, please, into the record.

MR. PADDON: “The above image notes that July 15, 2017 schedule was a P1. This meant that there was a 99% chance that the schedule for first power would not be met. The LCP Project Team noted that *‘there was a low probability that a mid-2017 First Power date would be met. As such, the PMT recommended to Nalcor Executive that a provisional schedule reserve allowance should be made to account for the difference between the target date and the probable date. Given the desire to achieve the best possible date, Nalcor Executive wanted to maintain the Target Milestone Schedule, and thus no schedule reserve allowance was made to accommodate the residual risk exposure identified in the QRA.’*”

MR. LEARMONTH: Okay. When did you first find out about that?

MR. PADDON: I believe when you showed it to me during our interview.

MR. LEARMONTH: Okay, so you understand what's being said there that the July 15, 2017 date, which Nalcor was using –

MR. PADDON: There's almost a zero per cent chance that was going to be met.

MR. LEARMONTH: Yeah, if – we'll say a maximum 1 per cent chance.

MR. PADDON: Yeah.

MR. LEARMONTH: Which is not a very –

MR. PADDON: Almost zero.

MR. LEARMONTH: I suppose it's a possibility, in this word that we use, that

anything in life is possible but it's not very comforting is it?

MR. PADDON: You would almost expect it to be the other way around: You're gonna have a 99 per cent chance that it's gonna achieve –

MR. LEARMONTH: Yeah, the reverse.

MR. PADDON: Yeah.

MR. LEARMONTH: Yeah.

Now, were you aware of this situation at any time before you read the Grant Thornton report?

MR. PADDON: No.

MR. LEARMONTH: Okay. Well, what do you make of it?

MR. PADDON: It's – I think, it's certainly something that – everybody should've been aware of that. This – basically this project, at that time, had almost no chance of achieving the schedule.

MR. LEARMONTH: Okay. Do you believe that that information should've been presented to government?

MR. PADDON: I believe so, yes.

MR. LEARMONTH: Why?

MR. PADDON: Well, the – anything to do with schedule, ultimately, will impact cost of the project and that would've been a significant variable to know.

MR. LEARMONTH: And this talk about management reserve and so on, did you – were you – while you were in the Department of Finance, did you have occasion to read anything about management reserve or strategic risk or anything like that?

MR. PADDON: I don't recall. No.

MR. LEARMONTH: You don't recall. No.

And we – the evidence, the clear evidence, from the three representatives of Manitoba Hydro International is that Nalcor did not advise them,

at any time, during their engagement for the Government of Newfoundland – did not advise them of the 500 million strategic risk or the P1 number. They were kept in the dark about that, so they say.

MR. PADDON: Mmm.

MR. LEARMONTH: Would that give you any concern, that Nalcor would not have disclosed that information to them?

MR. PADDON: Absolutely, yes.

MR. LEARMONTH: Absolutely?

MR. PADDON: Yeah.

MR. LEARMONTH: Once again, why?

MR. PADDON: It's – really two critical elements of the whole costing of the project and the whole timeline of the project. And if you're – you know, you've engaged somebody to give you some comfort that what Nalcor have done is correct, you would've expected that there would have been complete and whole disclosure of all that information to that.

MR. LEARMONTH: So you must have been surprised when you found out that MHI – MHI's evidence on that, is that correct?

MR. PADDON: I was surprised, yeah.

MR. LEARMONTH: So you were involved – well, you as a representative, the deputy minister of Finance, was – you were involved in the financing of this project, is that right? From the government's perspective, like, the debt-equity ratio and things like that?

MR. PADDON: That's right, yeah.

MR. LEARMONTH: But was there ever, to your knowledge, any review or study done about the potential consequences for the province if this project, you know, cost \$10 billion? In other words, a process that – okay, we've got an estimate here of 6.2 billion – and you're telling me you believed that to be a robust estimate, based on what Nalcor told you.

But was there ever any process put in place – okay, let's play around with these numbers, and let's say it goes up to \$10 billion, you know, 'cause you know that megaprojects have a tendency – a strong tendency – to go over budget.

Was there ever any study done or thought given to making a projection and saying if it goes to \$10 billion, can we – do we have enough in the way of shock absorbers to handle this?

MR. PADDON: Not to that – not to the extent of a 10 – a \$4-billion overrun.

MR. LEARMONTH: Or a \$2-billion overrun.

MR. PADDON: I don't even think anybody was looking at numbers of that – there was some sensitivities done by Nalcor around impacts of changing assumptions, costs –

MR. LEARMONTH: Yeah.

MR. PADDON: – you know, interest rates, oil prices, those sorts of things. But I don't recall to the extent of, you know, those types of significant overruns.

MR. LEARMONTH: Yeah, but I'm not talking about Nalcor. I'm talking about the Department of Finance.

MR. PADDON: (Inaudible.)

MR. LEARMONTH: Just as a precaution to say, okay, 6.2. They're strong estimates; we're – we accept what Nalcor's saying, but just to be safe, let's have a look at this, say, at 8 billion or 10 billion. Can we handle it?

MR. PADDON: We didn't look at it from that perspective, no. Not to that level.

MR. LEARMONTH: Was it ever – that thought process or that type of examination – ever contemplated?

MR. PADDON: The thought process was there as to what we could afford or what the province could afford, but I don't recall anybody thinking that, you know, you were looking at that magnitude of an overrun. Maybe half a billion dollars, those sorts of things, which was, at that

point, within the capacity of the province to absorb, not –

MR. LEARMONTH: Yeah.

MR. PADDON: – not going beyond that, I don't recall.

MR. LEARMONTH: But were you personally aware that hydroelectric dam projects have a long and storied history of going way over budget?

MR. PADDON: Not at the time, no.

MR. LEARMONTH: You weren't aware? Did – was any – did it ever cross any – your mind to do some research on that?

MR. PADDON: No.

MR. LEARMONTH: No.

Now, on the question of oversight, you know, I put to you some of the terms used by Mr. Todd Stanley, and you didn't agree with them and so on, but what about the term driving the bus? Nalcor was driving the bus, do you agree with that?

MR. PADDON: I think you can look at that from a couple of perspectives. I mean, one –

MR. LEARMONTH: Well, first of all, do you agree that that was a –

MR. PADDON: I don't (inaudible) – I don't –

MR. LEARMONTH: – and I'm referring to what you said in your interview.

MR. PADDON: Me?

MR. LEARMONTH: Yeah.

MR. PADDON: (Inaudible) saying that.

MR. LEARMONTH: Do you want me to tell you what you said?

MR. PADDON: Oh, yeah. Sure.

MR. LEARMONTH: Page 31, you say: I guess it's fair to say that Nalcor was driving the bus, and you know, it had a head of steam.

That's what you said.

MR. PADDON: But I think the context was is that the Muskrat Falls Project was a fairly significant project. It was dominating what was happening within government. So from that perspective, yes, it was – I guess, perhaps, you could call it driving the bus. And certainly once you got past DG2, there's no doubt there was a head of steam. I mean, you know, the project was moving and moving fairly quickly.

MR. LEARMONTH: Yeah, but you're saying Nalcor was driving the bus. I suggest to you that government should have been driving the bus, not Nalcor.

MR. PADDON: Depends –

MR. LEARMONTH: Because of government's obligation to protect the taxpayers. Do you have any comment on that?

MR. PADDON: I don't – when – you know, describing Nalcor as driving the bus from that perspective –

MR. LEARMONTH: No, no. I'm not describing.

MR. PADDON: No, no.

MR. LEARMONTH: You are.

MR. PADDON: But I wasn't describing it that Nalcor was running the province, which is sort of the impression that is being led here.

Certainly, I think there was a fair bit of control over Nalcor, but there's no doubt that the project was such – of such a magnitude that it was generating a fair bit of attention within the public service and the political side in government at the time.

MR. LEARMONTH: You say there was a fair degree or amount of control by government over Nalcor?

MR. PADDON: Yeah.

MR. LEARMONTH: Can you give me examples of that?

MR. PADDON: I think –

MR. LEARMONTH: What was the oversight?

MR. PADDON: The oversight was essentially – I mean, in its purest form, Nalcor reports through the minister of Natural Resources. So ultimately, the minister is responsible for things that occur at Nalcor, the decisions that they're taking and the activity that they're performing, and that then would be sort of delegated through to the deputy minister of Natural Resources.

But on the other side, you had a senior group of provincial officials who were meeting and liaising with Nalcor on a regular basis and, you know, ensuring that, what was happening with the project, everybody was aware of it and that things were getting done.

MR. LEARMONTH: And I would suggest to you that the – these senior people were, with great gullibility, swallowing whole all of the project cost estimates by Nalcor without any review.

MR. PADDON: Perhaps.

MR. LEARMONTH: Okay.

The – I wanna ask you some questions about the – your involvement in the federal loan guarantee issue. Department of Finance was – played a significant role in that endeavour, is that correct?

MR. PADDON: I'm not sure I would call it a significant role. It was more driven out of Natural Resources and Nalcor in terms of negotiation of the loan guarantee.

MR. LEARMONTH: So it was the department of – well, can you describe for me the Department of Finance's role in the –?

MR. PADDON: We had a – I had a person from the department who was liaising with the others who were involved in the loan guarantee, reviewing documentation, those sorts of things. But we didn't participate in any detailed – excuse me – meetings with either the federal government or whoever was dealing with it.

MR. LEARMONTH: Finance was not part of the delegation or contingent from –

MR. PADDON: No.

MR. LEARMONTH: – government that was involved in the negotiations for the federal loan guarantee?

MR. PADDON: No.

MR. LEARMONTH: Well, wouldn't that fall right within the wheelhouse of the Department of Finance?

MR. PADDON: Well, perhaps, but in this case it was a loan guarantee of Nalcor's debt, so Nalcor were the ones that were dealing with it.

MR. LEARMONTH: And that was Mr. Derrick Sturge, I think, that was the lead person at Nalcor –

MR. PADDON: I believe so.

MR. LEARMONTH: – with respect –?

MR. PADDON: I believe so, yeah.

MR. LEARMONTH: But – so you weren't personally involved at all, were you? Is that right?

MR. PADDON: No.

MR. LEARMONTH: No, you weren't.

MR. PADDON: Yeah.

MR. LEARMONTH: Okay, thank you.

Now, at the time you were deputy minister, I believe Robert Thompson had a senior position in government, too. At one point he was clerk, another time deputy minister of Natural Resources?

MR. PADDON: That's correct, yeah.

MR. LEARMONTH: Do you know when he was the deputy minister of Natural Resources? Was that before you left?

MR. PADDON: Yes. He was likely the deputy minister of Natural Resources prior to 2010, or prior.

MR. LEARMONTH: Okay. And did you have contact with Robert Thompson with respect to the Muskrat Falls Project, generally?

MR. PADDON: Generally, I did, yes.

MR. LEARMONTH: Can you describe the nature of that contact and communications?

MR. PADDON: Mostly it would have been as part of the senior, I guess, deputy team that was meeting on a regular basis.

MR. LEARMONTH: Okay.

By the way, I forgot to ask you earlier that – can you confirm that when you left the Department of Finance, you didn't take anything with you in terms of notes or anything like that?

MR. PADDON: That's correct.

MR. LEARMONTH: So whatever record keeping you had –

MR. PADDON: I left it there.

MR. LEARMONTH: – was left with the government.

Were you – how would you describe your record keeping tendency? You know, some people make long, long notes of everything; other people don't make any. Most people fall –

MR. PADDON: I'd –

MR. LEARMONTH: – within the (inaudible). How would you describe where you fall?

MR. PADDON: I wouldn't call myself a prolific note taker.

MR. LEARMONTH: No. Okay.

MR. PADDON: (Inaudible.)

MR. LEARMONTH: The – just to get back to the \$6.2 billion capital cost estimate at the time

of sanction, were you aware that that figure did not include interest?

MR. PADDON: I believe I was, yes.

MR. LEARMONTH: Interest during construction –

MR. PADDON: I was, yeah.

MR. LEARMONTH: – or AFUDC.

MR. PADDON: Yep.

MR. LEARMONTH: Did – what's your view on that? I mean, isn't interest a cost?

MR. PADDON: (Inaudible.)

MR. LEARMONTH: Do you feel that it would have been appropriate to exclude – include interest in the cost estimate?

MR. PADDON: I think it was included in the financial modelling, but I think, it would appear, from a communications perspective, it was excluded.

MR. LEARMONTH: Yeah. And did you think that was appropriate, to exclude it? I mean, you're a –

MR. PADDON: At –

MR. LEARMONTH: – chartered accountant and, you know ...

MR. PADDON: At the time, it – I didn't have a view one way or the other. I certainly knew that – and most people knew that interest, certainly internally, that interest was going to be – was an additional cost that was there.

From a public communications perspective it would appear that there was probably a conscious decision to exclude the number just to have a lower number that was in the window.

MR. LEARMONTH: A lower number. Why would there be any wish to have a lower number?

MR. PADDON: Visibility, I suspect.

MR. LEARMONTH: Visibility?

MR. PADDON: Yeah.

MR. LEARMONTH: Yeah. That's not transparent if it's to reduce visibility. What comment would you have as to whether that's a transparent project – process.

MR. PADDON: It was probably not the most transparent. My recollection is that any time costs were mentioned it would be described as X-billion dollars plus interest during construction.

MR. LEARMONTH: Yeah. So at least it was mentioned.

MR. PADDON: Well, it was mentioned but not explicit.

MR. LEARMONTH: The – I've referred you to the Grant Thornton report in one place where it talked about this P1 and P99, and while you were at – working as a deputy minister Finance were you aware of this P1, P-factor discussion?

MR. PADDON: I have a vague recollection of P-factors, at some point in time. I don't recall it – this was in terms of the scheduling – I don't recall it as part of the discussion around scheduling but I do recall some discussion around P-factors somewhere along the way.

MR. LEARMONTH: Yeah.

Now, the \$6.2 billion estimate of project costs at the time of sanction was based on a P50 factor.

MR. PADDON: Okay.

MR. LEARMONTH: Were you aware of that? At the time of sanction?

MR. PADDON: Well, I wasn't there at the time of sanction but –

MR. LEARMONTH: Excuse me, on June 12, but at anytime until you left the Department of Finance.

MR. PADDON: I don't recall specifically being aware of a P-factor, a P50 factor. The discussion I recall having with Nalcor officials over the

years was different classes of estimates as opposed to probabilities.

MR. LEARMONTH: Mm-hmm.

MR. PADDON: So you'd start off with a Class 1, 2, and 3 and as you got more engineering work done you would refine your estimates and the reliability, if you want to call it that, of the estimates was intended to be stronger as you moved forward. But I don't recall specifically around the P-factors.

MR. LEARMONTH: Well, wouldn't you have thought, based on what you said earlier about how Nalcor was confidently expressing, you know, giving assurance about the robustness of their estimates and so on, which you mentioned earlier.

MR. PADDON: Hmm.

MR. LEARMONTH: And government accepted that. Would you not have expected that the DG3 cost estimates would be at a higher than a P50?

MR. PADDON: I would have expected by that point they would have been fairly high because that was the intention. By the time you got to sanction, that you had a fairly high comfort level with your estimates.

MR. LEARMONTH: So you would be – you would expect it that it would – you –

MR. PADDON: I would've thought it'd be higher than – if P50 means there's a 50 per cent chance –

MR. LEARMONTH: Yes.

MR. PADDON: – that you're going to go over – or under, I suppose, but most likely over –

MR. LEARMONTH: Yeah.

MR. PADDON: – that, to my mind, would be a fairly low probability at that point in time.

MR. LEARMONTH: And do you agree that a P50 would be, to some degree, inconsistent with the confident assurances that Nalcor were providing with respect to cost estimates?

MR. PADDON: In my – not being sort of an (inaudible) and understand the nuances around the P-factor, but in general terms, yes, you would expect to be – I would expect to be higher.

MR. LEARMONTH: Okay. Thank you.

I'm going to turn to some of the exhibits that are in your binder, Mr. Paddon. I think you have it in front of you.

MR. PADDON: Yeah.

MR. LEARMONTH: And I'll refer to the exhibit number and also the binder number so you can turn it up rather than relying on the screen if that's your preference.

The first document at tab 1, which is Exhibit P-00960 –

MR. PADDON: Hmm.

MR. LEARMONTH: – can you identify that document and advise us of what input or participation you had in the – in assessing this document?

MR. PADDON: I recall being part of the group. This was 2005, so that's 13 years ago. It was a – I think it was the pre-qualify proponents for the project or whatever the project was looking like back in 2005.

MR. LEARMONTH: Yes.

MR. PADDON: Yeah.

MR. LEARMONTH: That's been –

MR. PADDON: So it was an expression of interest, so our recollection is Nalcor had sent out an expression of interest looking for interested parties to come in and provide their résumés as to how they could (inaudible) –

MR. LEARMONTH: Yeah and there was –

MR. PADDON: – the project.

MR. LEARMONTH: I think the record will show that the – on May 8, 2006, the province announced that – the premier announced that it

was going – the province was going to – quote – go it alone – close quote.

MR. PADDON: I recall that. Yeah.

MR. LEARMONTH: So this – these proposals would not have been accepted, I take it.

MR. PADDON: I can't remember.

MR. LEARMONTH: Can't remember. Okay.

Tab 3, is Exhibit 00962. It's an email from May 4, 2006, just before the go-it-alone announcement from Robert Thompson to you.

He says: "Have you been consulted on the financial capacity of the" government "to finance the Lower Churchill project in some fashion should we decide to go it alone. The" government "is planning to make an announcement on Monday, and I need to know whether you have any issues."

Do you remember receiving that email?

MR. PADDON: I don't remember specifically, no.

MR. LEARMONTH: Okay, and did you provide any response, to your knowledge, to Mr. Thompson's request?

MR. PADDON: I likely would have. Whether it was a response – an email response or whether I called him –

MR. LEARMONTH: Yeah.

MR. PADDON: – one way or the other, I would have responded. It's –

MR. LEARMONTH: Do you know what your answer – response would have been?

MR. PADDON: (Inaudible.)

MR. LEARMONTH: No idea?

MR. PADDON: No, idea. No.

MR. LEARMONTH: Yeah, all right.

Well, that's going back 12 years –

MR. PADDON: That's 12 years ago –

MR. LEARMONTH: – so we can forgive you for that, Sir, I think.

Tab 4, Exhibit P-00963, is an email from Robert Sharpe to a number of people, including you.

Now, is this the type of – if we could just bring that up and go to page 3 – 2 and 3. Can you describe this document, Mr. Paddon?

MR. PADDON: Yeah, this would typically be the output that –

MR. LEARMONTH: Yeah.

MR. PADDON: – the department would have from their economic model.

MR. LEARMONTH: Yes.

MR. PADDON: So it would look at the revenue streams coming to the province over a –

MR. LEARMONTH: Yeah.

MR. PADDON: – period of years and try to determine the net economic benefits, I guess, to the province.

MR. LEARMONTH: Yeah. And when we spoke earlier about – this is a typical – an example of what you were talking about –

MR. PADDON: That's right.

MR. LEARMONTH: – the type of work that you would do.

MR. PADDON: That's right, yeah.

MR. LEARMONTH: Is that right?

MR. PADDON: Yeah.

MR. LEARMONTH: Right, rather than the cost estimates.

MR. PADDON: That's right.

MR. LEARMONTH: At tab 5, P-00964, now this is something – this starts off with – on page

2 with an email from Paul Judson, I think, of Standard & Poor's, is it?

MR. PADDON: Yeah.

MR. LEARMONTH: Can you give us a little bit of context as to what these – this chain of email represents?

MR. PADDON: This would have been in relation to Standard & Poor's review of the province's credit rating. So typically what would happen is they would come down and we would do a series of presentations about, you know, what was in the budget, you know, long-term forecasts, all those sorts of things.

They'd typically go away and then come back with follow-up questions. So this would have been sort of the nature of the follow-up questions.

MR. LEARMONTH: Yeah and this is an annual process, is it?

MR. PADDON: It's an annual process.

MR. LEARMONTH: You have to have it to get your credit rating to set the – I guess, the rates for the bonds, right?

MR. PADDON: That's correct. Yeah.

MR. LEARMONTH: It depends on – yeah. So it's a lot of – that's an important part of your work, I take it.

MR. PADDON: Well, we went through – we'd meet with three credit-rating agencies every year, yeah.

MR. LEARMONTH: Okay, tab 6, Exhibit P-00965. This is an October 13, 2000 [sp 2009], email from Kent Legge at Newfoundland Hydro to Dennis Sharpe. And you're – yeah.

This is a reference to the PwC Gull model. Is that what you referred to earlier? I think you said that Nalcor had retained PwC?

MR. PADDON: Yeah. So they – PwC then developed their own model, I guess.

MR. LEARMONTH: Yeah.

MR. PADDON: In terms for economic impacts and financial impacts.

MR. LEARMONTH: So why would this information come into Department of Finance?

MR. PADDON: I – well, we would have then tried to marry up, sort of, the outputs from the PwC model to our own model –

MR. LEARMONTH: Yeah.

MR. PADDON: – to make sure that we were dealing with the same information.

MR. LEARMONTH: So that would be just to help you in doing the economic modelling and the –

MR. PADDON: That's correct. Yeah.

MR. LEARMONTH: – economic impact benefit statement (inaudible).

MR. PADDON: At some point, I mean, Nalcor moved from their own modelling, when they engaged PwC, to using PwC's model.

MR. LEARMONTH: Okay.

There's a document at tab 9 I'd like to bring up. It's Exhibit P-00968. Now, this is an email – well, at the bottom it's from Mark Bradbury, who's the corporate treasurer and chief risk officer. He's identified as that on page 2 of the document.

MR. PADDON: Mmm.

MR. LEARMONTH: And can you give me some information about what this exchange of emails concerns? It's dated September 24, 2010, so just –

MR. PADDON: Yeah so –

MR. LEARMONTH: – before the –

MR. PADDON: So my –

MR. LEARMONTH: – term sheet.

MR. PADDON: My recollection is that they were getting ready to bring some documentation

to the province to go through DG2. So they were basically preparing a bunch of information. So they were just checking whether this wording was okay.

MR. LEARMONTH: All right.

And there's a reference there to contingent equity.

MR. PADDON: Mmm.

MR. LEARMONTH: What was your understanding of the meaning of that term?

MR. PADDON: The meaning of that term was that if there were cost overruns, then the province would pick up any additional costs.

MR. LEARMONTH: Right.

And that would be a requirement for any federal loan guarantee, I take it.

MR. PADDON: Well, ultimately it was, yes.

MR. LEARMONTH: Yeah.

And tab 10, Exhibit P-00969, can you give me some context for this email? Has to do with the loan guarantee.

MR. PADDON: So I had a request from the clerk at the time about how the province would go about getting the loan guarantee. And, you know, it was a – there was no loan guarantee program so it was basically giving the minister a heads-up that, you know, we're going to do a note and, you know, just be prepared, you're going to see something next week. That was the context of this, I think.

MR. LEARMONTH: It's not something you take off the shelf because it's a unique situation. Is that correct?

MR. PADDON: That's correct.

MR. LEARMONTH: Yeah, uncharted waters?

MR. PADDON: Yeah, so we –

MR. LEARMONTH: Yeah.

MR. PADDON: – basically did a little bit of research, saw if there were any other precedents, those sorts of things, and then pulled together a note that, I think, is somewhere – was in the original documentation I saw.

MR. LEARMONTH: And I think that at tab 11, Exhibit P-00970 on page 8 you – your official, Bob Constantine, prepared a letter and then you approved it on October 7, 2010.

MR. PADDON: That's right. Yeah.

MR. LEARMONTH: Okay. Were the negotiations for the federal loan guarantee underway at this time? Or was this in the very early stage?

MR. PADDON: No, I think this was probably day one of that whole process. 'Cause nobody really knew how to embark on this so it was really just trying to bring together, sort of, some thoughts as to what might be a reasonable approach if you were going to approach federal government for a loan guarantee.

MR. LEARMONTH: Right.

Tab 13 is an email from Robert Thompson to you dated November 3, 2010, just before the term sheet was signed. Were you – did Robert Thompson, generally, keep you, as deputy minister of Finance, up to date on the progress at the discussions for the – with Emera for the term sheet?

MR. PADDON: I'm not sure I would describe it that way. I – you know, I really – to be honest, I don't really recall sort of much conversation with Robert on this – on the Emera thing.

MR. LEARMONTH: Okay. Well, you said earlier that you had a limited – Finance had a limited role –

MR. PADDON: Right.

MR. LEARMONTH: – I think, so that's – be consistent with what you –

MR. PADDON: No, that was a loan guarantee, I think.

MR. LEARMONTH: Loan guarantee, yeah.

The document at tab 14 is another email for Robert Thompson to you dated November 5, 2010. It – Mr. Thompson describes the – he calls it “enormous employment and economic benefits for this province and other provinces” – employment and so on.

In – to your knowledge in sanctioning the Muskrat Falls Project was the economic impact on the province in terms of taxation, employment and so on a factor in deciding to proceed with the Muskrat Falls Project?

MR. PADDON: Well, I can't specifically speak to sanction because I wasn't there, but I can't even – this was around DG2, not sanction, so I wouldn't go so far as to say that – it certainly would have been a factor that government or Cabinet would have considered, but I'm not sure that necessarily would have been the driving force, the – you know, the economic spin-offs.

MR. LEARMONTH: Okay.

Tab 15 is a draft of a Long Term Financial Outlook Lower Churchill Project Equity Financing, et cetera and this is prepared by the province, not Nalcor.

Do you know what department of Government prepared this document at P-00974?

MR. PADDON: Well, it's something that would have come out of the Department of Finance, by the looks of it.

MR. LEARMONTH: Would it come from Finance?

MR. PADDON: Yeah.

MR. LEARMONTH: So would you have signed off on it?

MR. PADDON: I don't specifically remember this, but – and I don't know where it went, but may have, yeah.

MR. LEARMONTH: Okay. Can you give us an overview of what the purpose of preparing this document was?

MR. PADDON: I don't know 'cause I can't really remember it, to be honest.

THE COMMISSIONER: This might be a good place for you to have a look at over lunch, 'cause I think we're going to take our break here now.

MR. PADDON: Sure.

THE COMMISSIONER: And then that'll give you a chance to look at it.

MR. PADDON: Okay.

THE COMMISSIONER: So we'll take our break here now until 2 o'clock this afternoon. If we could return at 2 o'clock.

CLERK: All rise.

Recess

CLERK: All rise.

This Commission of Inquiry is in session.

Please be seated.

THE COMMISSIONER: All right, Mr. Learmonth.

MR. LEARMONTH: Thank you.

There's one further exhibit that I would like to have entered as an Exhibit, it's P-00913; somehow it wasn't entered in the – earlier today, so, P-00913 please.

THE COMMISSIONER: All right, that's entered then as marked.

MR. LEARMONTH: Thank you.

Mr. Paddon, earlier this morning I believe you indicated or suggested that any review, financial review would be done by the Department of Natural Resources rather than Finance. Is that what you said?

MR. PADDON: I don't recall saying that. I may have indicated that if there was going to be a review of costs –

MR. LEARMONTH: Mm-hmm.

MR. PADDON: – it would be done by the Department of Natural Resources.

MR. LEARMONTH: So you did say that?

MR. PADDON: I may have –

MR. LEARMONTH: But I – I believe, I stand to be corrected but I recall Shawn Skinner, I think I recall him saying the opposite, that any review of financial matters or costs would be done by Finance so – do you have anything further to say about that?

MR. PADDON: He may have said it but I don't think there was any basis – I mean we still wouldn't have the capacity for it so –

MR. LEARMONTH: Yeah, okay.

Anyway, as I said that's my recollection. If I'm wrong then the question won't have any value but I think Minister. Skinner – er, Shawn Skinner said something along those lines. If not, then it's my mistake.

I'd like you to turn to tab 17, please, which is the – an email, March 18, 2011 from Charles Bown to –

THE COMMISSIONER: P-00976.

MR. LEARMONTH: P-00976, to Shawn Skinner and you're copied on this.

This is about this contingent equity for the Muskrat Falls and it seems – this point seems to have arisen in the course of the negotiations with Canada over the federal loan guarantee.

MR. PADDON: Right.

MR. LEARMONTH: Can you give us some background on this, about this contingent equity? I'll refer you to the Cabinet consideration of it later, but give us a bit of background on that please.

MR. PADDON: Well, essentially, if you are either lending the project money, or you're going to guarantee the financing on the project – at some point, if you're a lender or a guarantor you're going to want to have some assurance that the project gets completed. So really what

this was, was, I guess, explicitly stating that the province at the end of the day would ensure that the project got completed.

MR. LEARMONTH: And cover all cost overruns?

MR. PADDON: Right.

MR. LEARMONTH: Okay.

Could we bring up Exhibit P-00043? It's not in your documents, but I think you're familiar with this. I think I referred you to it at the interview. Does this look familiar to you? This commitment letter to assist financing; it's a memorandum?

MR. PADDON: Well it looks familiar only because you did show it to me when we were interviewed.

MR. LEARMONTH: Yeah.

MR. PADDON: But, I mean, it's a Cabinet submission so –

MR. LEARMONTH: But the Department of Finance signed off on it, so you would have had to have some familiarity with it at the time I take it?

MR. PADDON: I likely did. It's a Natural Resources Cabinet paper, not a Department of Finance paper but we would have had some input I suspect, yes.

MR. LEARMONTH: Yeah well like on page 34 – if we go to page 34 there's an indication that – there's an email from Robert Constantine, you're copied on it as well saying: "The Department of Finance has reviewed the ongoing drafts of the Commitment Letter and the Memorandum of Principles, as well as NR" – such and such – "FIN has provided text ..." and so on.

So you were consulted on it, you may not remember it, but I think you –

MR. PADDON: Oh yeah. No, but I'm just saying the Cabinet paper itself was a submission from the Department of Natural Resources –

MR. LEARMONTH: All right.

MR. PADDON: – I think in the submission it likely says we were consulted for sure.

MR. LEARMONTH: Right, thank you.

Page 3 of that document. If we go down, halfway down the page beginning with in summary and then go to the third dot after that. The – just keep going on down please – yeah.

"Provide the Government" – no, okay, back up please. Yeah, the second one: "Provide the Government" – "In summary, the Commitment Letter states Government's intent to do the following, all of which are critical for financing" – the second point – "Provide the Government investment into the Project, which includes the amount determined during the financing process (currently estimated at \$1.5 to \$2.0 billion – see Financial Considerations ...) and any additional Government investment needed to address any contingencies required to ensure ... completion."

MR. PADDON: Right.

MR. LEARMONTH: Yeah.

Now this was eventually approved by Cabinet and Premier Dunderdale was authorized to issue a letter to Edmund Martin dated October 18, 2011, where this commitment is –

MR. PADDON: Yeah.

MR. LEARMONTH: – clearly stated.

MR. PADDON: Yeah.

MR. LEARMONTH: Now as deputy minister of Finance, do you agree that this commitment is basically giving a blank cheque to Nalcor?

MR. PADDON: It certainly – you could describe it as a blank cheque, I guess, but certainly what it is, is an indication to Nalcor, and, ultimately, to the lenders, that the government is fully committed to the project.

MR. LEARMONTH: Yeah. But you have described it as a blank cheque, I suggest to you.

MR. PADDON: Well, essentially, what it is, I mean –

MR. LEARMONTH: Yeah.

MR. PADDON: – ultimately, government will pick up the – any –

MR. LEARMONTH: Yeah.

MR. PADDON: – overruns.

MR. LEARMONTH: But – and this is a big commitment, isn't it?

MR. PADDON: Sure.

MR. LEARMONTH: Now, at the time, was any system or set of controls placed on Nalcor to address this commitment – this blank cheque? In other words, was there any system put in place whereby Nalcor would be able to have to report to government immediately if there are any costs that were over and above the estimates that were provided to government from time-to-time?

MR. PADDON: I don't recall at that point in time. I just know – not from personal experience, which is because I was tangentially involved, after I left, that there was the Oversight Committee put in place, and I would have – you know, perhaps one of their mandates would've been as you suggest.

MR. LEARMONTH: But the Oversight Committee wasn't struck until after – well after sanction.

MR. PADDON: Yeah – no, I think it was after Mr. Marshall became premier.

MR. LEARMONTH: In 2014?

MR. PADDON: Two thousand and – okay.

MR. LEARMONTH: Yeah.

MR. PADDON: Yeah.

MR. LEARMONTH: So I don't think that would – in any event.

Tab 19, please? That's 00977. Would this be just another one of those types of reviews that the Department of Finance would undertake?

MR. PADDON: So, this a meeting that – I'm not on the same – what is on the screen.

MR. LEARMONTH: Sorry, it's tab 18, I'm sorry, it's tab 18.

MR. PADDON: Okay, sorry.

MR. LEARMONTH: Yeah, this is the type that you – I think maybe we were actually referred to this, this morning. Is this is type of review that – ?

MR. PADDON: No, this is a little different. This is from the Economics and Statistics Branch, so this would've been, sort of, the long-term economic forecast that they would've produced. So they provide that every year, and they update it semi-annually.

MR. LEARMONTH: Okay. Thank you.

Tab 19, Exhibit P-00978. Can you tell us what this is about, please? It's an email – April 6, 2011, from you to Charles Bown.

MR. PADDON: Right, yeah.

MR. LEARMONTH: So just read it into –

MR. PADDON: I don't specifically remember, but, you know, I think it's probably a bit self-evident.

"The other day," – so, this is from me to Charles Bown. "The other day, you mentioned the possibility of an offsite briefing for 2 Ministers, and" – perhaps the premier – "on the LCP. Is this still being contemplated? Every day I get bombarded with detailed questions from the Minister. Some I can answer but most are beyond my ability to answer with any degree of detail."

MR. LEARMONTH: Yeah.

MR. PADDON: So I was just – do you want me to elaborate on this?

MR. LEARMONTH: Please, please.

MR. PADDON: So Minister Marshall, at the time, was, you know, quite engaged in what was happening with the project. You know, I would suggest that he was probably in my office once a day just to talk about things and ask questions and those sorts of things.

At some point in time, when the Legislature was open, he was probably one of the key people who's answering questions in Question Period. So he was getting to the point where there was a bunch of questions being asked that he didn't feel comfortable with, and, particularly, when it came to the arrangements with Emera. And that's the side of it that I could provide some level of detail, but beyond – I didn't want him to be in the House of Assembly not having the level of detail that perhaps somebody from Nalcor could provide.

MR. LEARMONTH: But because you didn't have the information, for example, on the cost estimates, you couldn't provide him with that information. Is that correct?

MR. PADDON: I don't think it was necessarily the cost estimates, it was electricity pricing and those sorts of things that –

MR. LEARMONTH: So it had nothing to do with cost estimates?

MR. PADDON: It could've been.

MR. LEARMONTH: You don't know?

MR. PADDON: It could've been a range of things.

MR. LEARMONTH: Okay. So did – was there a meeting arranged? And did you attend it?

MR. PADDON: I – there were, I'm not sure if it was – there was a meeting arranged and Ed Martin did come in and provide, you know, a fairly detailed briefing to the minister of Finance, but I don't know if any other minister was there, whether the minister of Natural Resources was there or not.

MR. LEARMONTH: You don't remember who else was at the meeting?

MR. PADDON: I don't recall, no.

MR. LEARMONTH: But were you there?

MR. PADDON: I think I was there, yeah.

MR. LEARMONTH: Okay, very good.

Tab 23, excuse me, tab 22, Exhibit 00981. Now, this appears to be, perhaps you can confirm this, the lower – the bottom emails from you to Charles Bown and there's a reference to Yvonne. Who's Yvonne?

MR. PADDON: Yvonne would have been my assistant at the time.

MR. LEARMONTH: Oh, that's your assistant, okay.

MR. PADDON: Yeah.

MR. LEARMONTH: And then there's a document which was prepared by Derrick. Would that be Derrick Sturge?

MR. PADDON: That'd be Derrick Sturge, yeah.

MR. LEARMONTH: Okay.

Now, this has to do with – this is a fairly detailed document. Just turn to page 2, please, of 00981. And this is Mr. Sturge's draft, but I note that on page 2, number 3, under the heading Issue, it says – well, the heading is: The purpose of this briefing note is to describe the following: the Decision Gate 3 process and how independent reviews will be – will comprise a key component of project sanction.

MR. PADDON: Right.

MR. LEARMONTH: So we're talking about that.

And then when I turn to the end of it, this appears to be a request or a position put forward by Mr. Sturge on behalf of Nalcor that the PUB review not be pursued. Do you recall that?

MR. PADDON: I don't recall that specifically, no.

MR. LEARMONTH: Yeah, well, just look through the document.

MR. PADDON: Where is this? Which page would that be?

MR. LEARMONTH: Well, the – if you look on page 3, second paragraph it says: “As recently noted in Nalcor’s affidavit related to the injunction sought by Nunatukavut Community Council ... there will be substantial harm to Nalcor and the Project if completing the PUB review results in a delay in the Project.”

And then there’s a number of – you know “Direct financial harm to Nalcor ... Termination or increased costs of contracts” I mean the project isn’t even sanctioned now, correct?

MR. PADDON: Yeah.

MR. LEARMONTH: And then loss of key project management members. So if you just take the time to read it, I think – will you confirm that this was an attempt to persuade government not to have the PUB review the project? Just take your time to flip through it.

MR. PADDON: On the surface of it, yeah, that seems to be what it appears to be doing.

MR. LEARMONTH: Well, you say on the surface.

MR. PADDON: Well, I mean I don’t know if there are some nuances that I’m missing, but that seems to be what it’s directly asking.

MR. LEARMONTH: Okay, well, you must have been involved then, to some extent, in the PUB reference if Mr. Sturge is sending you this. Is that a safe assumption for me to make?

MR. PADDON: No, I don’t think – I wasn’t involved in the reference to the PUB. This would have been in when? 2011?

MR. LEARMONTH: Yeah.

MR. PADDON: I mean that would’ve been done through the Department of Natural Resources.

MR. LEARMONTH: Would – do you know why you would have been sent a copy of this?

MR. PADDON: I might have been sent a copy just as a matter of form. I don’t know.

MR. LEARMONTH: Well, a matter of form, but I mean the email is sent originally to – just to you. It’s not sent to even Natural Resources, if I’m reading it correctly.

MR. PADDON: I don’t know.

MR. LEARMONTH: Okay, well, in any event, you didn’t have anything to do with the PUB review or that discussion of whether it was advisable to have that – the PUB review this, is that correct?

MR. PADDON: That’s correct.

MR. LEARMONTH: Okay.

Tab 23; I want you to refer – this is an email from Auburn Warren at Nalcor to you dated June 1, 2011, dealing with the –

UNIDENTIFIED MALE SPEAKER:
(Inaudible.)

MR. LEARMONTH: – issue about whether the project will impact reported net debt for the province on the financial statements. Can you just explain how that works? It’s a nuance of public sector financing, is it?

MR. PADDON: It’s – or public sector accounting.

MR. LEARMONTH: Accounting, yeah. Just explain how it works, please?

MR. PADDON: So, the province’s statement is – net debt is a common term that’s used to compare government financial positions across jurisdictions and within – you know, year over year. So the way net debt is defined, it’s your financial assets, which would be your cash, your accounts receivable, those types of things, less your financial liabilities. But the other financial asset that’s in there is also equity in a company like Nalcor. So that forms part of the government’s financial assets, so net debt is strictly financial assets less financial liabilities – net debt.

So if you – if the province borrows money to give Nalcor equity – so it increases its cash and it increases its borrowing, so no real impact on net debt because one offsets the other – then if they give that cash to Nalcor, Nalcor uses it to invest in the Lower Churchill Project, you have an asset offsetting that equity that the province has provided. So the net impact on Nalcor's equity is nil, and that transfers over to the province's financial statements and the impact is nil. So –

MR. LEARMONTH: So it's a complete wash?

MR. PADDON: It's a wash in terms of net debt, which is the – sort of the comparator that's typically used across governments in Canada.

MR. LEARMONTH: Is that accounting procedure something that's unique to governments?

MR. PADDON: It – yeah, it's unique to public sector accounting –

MR. LEARMONTH: Okay.

MR. PADDON: – entities.

MR. LEARMONTH: Okay, tab 29, Exhibit P-00987.

MR. PADDON: Tab 29?

MR. LEARMONTH: Yeah, 00987.

Can you tell us what this email is about, please? It's November 7, 2011. Obviously, it has something to do with data room. Does this have anything to do with the credit-reporting agencies' information?

MR. PADDON: It looks like it. It looks like it was just a thanks to the people who were involved in getting the information ready for the rating agencies.

MR. LEARMONTH: Okay.

Tab 30, Exhibit P-00988; if we go to the first page of that it says – it's an email from William Parrott to a number of senior public servants, including you, I believe.

MR. PADDON: Mmm.

MR. LEARMONTH: Yes, it's from William Parrott. Who's William Parrott, by the way?

MR. PADDON: He was the deputy minister of Environment.

MR. LEARMONTH: All right.

So he's saying: "In preparation for the DMs steering committee on Monday, attached you will find a presentation deck and meeting agenda."

Did this steering deputy minister's committee – was it struck for the purpose of overseeing the Lower Churchill generation project?

MR. PADDON: It was struck to – oversee would be probably the wrong way to describe it because it had membership from Nalcor as well, so difficult to oversee yourself in that respect. But it was a committee that was, you know, designed to make sure that things that needed to get done were getting done and those sorts of things.

MR. LEARMONTH: Well, what did the committee's work consist of?

MR. PADDON: Well, one of these committee – one of the things was looking at the results of the joint panel review on the environmental assessment, and making sure that the response that government was going to make was – is farmed out to different departments and the responses were made. If there were any issues that had to be dealt with, any regulatory issues that needed to be dealt with, there was any legal issues that needed to be dealt with, it was raised in that forum, those types of things.

MR. LEARMONTH: Nothing about financial issues?

MR. PADDON: It would've been. I mean, anything that was related to the project would've gone through there.

MR. LEARMONTH: So was this a committee that was – that met on a regular basis?

MR. PADDON: It probably, at this point, was meeting maybe once a week.

MR. LEARMONTH: And how long did it continue to meet once a week?

MR. PADDON: That was still meeting, I think, when I left.

MR. LEARMONTH: But what was the result of the work of the committee? I don't see any documents that show the committee did anything –

MR. PADDON: Oh, well, I –

MR. LEARMONTH: – except meet.

MR. PADDON: I can't – I'm not sure I can answer that question.

MR. LEARMONTH: Can you give me one tangible thing that the committee did while you were –

MR. PADDON: Well, I mean, the one thing I can see right here is the recommendations to the Joint Review Panel. So this would've been their role to make sure that everything that was required to be done to respond to the panel was done.

MR. LEARMONTH: Were you – so you were part of the committee that prepared or approved the responses to the Joint Review Panel recommendations?

MR. PADDON: I don't think this committee approved it. Ultimately, I'm not quite sure, it – a response would likely have gone back to Cabinet, I suspect, for approval, ultimately, which would've been the Department of Environment's role.

MR. LEARMONTH: So you were involved to some degree in the –

MR. PADDON: To some degree, yeah.

MR. LEARMONTH: – preparing the responses or approving your responses before they were sent to Cabinet?

MR. PADDON: I don't think approving would've been – you know, I wouldn't – we wouldn't be approving the responses, we would be reviewing, make sure that the responses, you know, were appropriate and consistent with government's policy, but I'm not sure that the deputy's committee was approving these things as you go along.

MR. LEARMONTH: To your recollection, did the government follow or accept the recommendations of the Joint Review Panel?

MR. PADDON: It's my recollection that they did, yeah.

MR. LEARMONTH: They did?

MR. PADDON: Yeah.

MR. LEARMONTH: Well, I think maybe I should show you Exhibit 00921. It's not in the documents, but if you could bring up page 3. Page 3, that's it.

Do you see – this is a recommendation 4.1.

MR. PADDON: Mmm.

MR. LEARMONTH: “The Panel recommends that, if the Project is approved, before making the sanction decision for each of Muskrat Falls and Gull Island, the Government of Newfoundland ... separate and formal review of the projected cash flow of the Project ... considered for sanctioning ... confirm whether that component would in fact provide significant long-term financial returns” So that's one of the recommendations.

And the response is: “The Government of Newfoundland and Labrador accepts the principle that a review of the Project's financial viability is required prior to sanction, but does not support the Panel's assumption that the information provided by the proponent was inadequate. Based on information that Nalcor has already provided, the Government is satisfied that the development of each component of the Project will result in significant financial benefits to the Government for the people of the Province.”

MR. PADDON: Hmm.

MR. LEARMONTH: So do you agree that that wasn't acceptance of the recommendation?

MR. PADDON: It would certainly be qualified if nothing else, yeah.

MR. LEARMONTH: But –

MR. PADDON: Yes, I would agree.

MR. LEARMONTH: Well, I don't think – I wouldn't say that it's qualified, it doesn't – it says accepts it in principle but then it –

MR. PADDON: Says no.

MR. LEARMONTH: Then it says no. So that's a refusal in my way of thinking. But anyway, it's not for me to decide.

And then in the rationale on page 3, the – this is the rationale from the response: "The Government will undertake a full financial review of each component of the Project (Muskrat Falls and Gull Island) before sanction to ensure that it is However, based on the information that Nalcor has already provided, the Government is satisfied that the development of each component ... will result in significant financial benefits to the Government for the people of the Province."

And then there's a reference to Navigant, which it did a DG2 review, et cetera.

And then there's a conclusion: "Muskrat Falls is the least cost option for meeting the demand growth projected for the Island and will therefore be developed first."

So would I be able to assume that at this point – I think these responses were sent out in March 2012 – that a decision had already been made to go ahead with Muskrat Falls?

MR. PADDON: I'm not quite sure I would say that, but I mean –

MR. LEARMONTH: Well, it's a pretty strong statement, right? Isn't it?

MR. PADDON: It was fairly strong, but at the end of the day it still hasn't gone through the Decision Gate 3 and the formal sanction.

MR. LEARMONTH: Okay.

Tab 33. Now, this is an email from you to Charles Bown. Mr. Bown says: "I note from page 4" Excuse me, 00991.

He says: "Terry

"I note from page 4 in your report that the ... MF is expected to be \$6.9 billion."

How was that figure calculated? Is that 700 million for construction and interest during construction and then the 6.2?

MR. PADDON: That's correct.

MR. LEARMONTH: Yeah. And you don't know why that figure of 6.9 was not mentioned – I think you said that earlier, right?

MR. PADDON: Well, this was a report I did when I was Auditor General.

MR. LEARMONTH: Okay.

MR. PADDON: So I had indicated that the expected costs at that time were expected to be 6.9, and I think the concern that I heard back from Charles and – I don't – whether (inaudible) Nalcor or not – was that that wasn't consistent with the public statements, that 6.2 was the cost. So they were just concerned that, I guess, the message I had out there was inconsistent with their own.

MR. LEARMONTH: All right.

Tab 35, this is while you were Auditor General too, but the bottom email on page 1 of Exhibit P-00993, you're writing to Julia Mullaley – making a couple of observations.

The second sentence in the first – second full – second paragraph is: "As you are aware, we rely on Nalcor's external auditors and review their working papers."

So you don't – you didn't conduct a detailed audit of Nalcor's work, is that right?

MR. PADDON: No, we weren't the auditors of Nalcor itself. They had their own external auditors. But our responsibility was to express

an opinion on the financial statements of the province and of course Nalcor's equity on the province's books is a significant component of it. So we did have procedures in place that are set out by auditing standards as to what you have to do to reassure yourself that their auditors have done the appropriate work to express the opinion that they did on Nalcor's books.

MR. LEARMONTH: All right.

Tab 38 is a – that's Exhibit P-00922. This is an information note that was prepared by a gentleman whose name is Walter [sp Wade] Tymchak and it's dated January 19, 2012. So it's before sanction.

When's the first time you saw this document? It was prepared by Walter [sp Wade] – or W. Tymchak, and M. O'Reilly, both – and K. Hicks – all of the Department of Finance.

MR. PADDON: Yeah. First time I saw it was when you showed it to me in August.

MR. LEARMONTH: In August of this year?

MR. PADDON: Yeah.

MR. LEARMONTH: So how could it be that this would be in the records of the Department of Finance and you not be aware of it? Does that surprise you? Or is that just –

MR. PADDON: Well they –

MR. LEARMONTH: – the way the practice –?

MR. PADDON: – may have drafted the note and it would've gone into the filing system, but if the ADM – who it doesn't appear that was – had approved it – he might not have moved it along to me. Because typically you may – if somebody's prepared it then it would require somebody – the immediate supervisor's approval to move it up the line. And I don't see that here.

MR. LEARMONTH: Okay. So it – can it be that someone in the Department of Finance can prepare a document and just put it in the file and it's of no real status?

MR. PADDON: That's possible, yeah.

MR. LEARMONTH: Yeah. But Mr. Tymchak – did you know Mr. Tymchak?

MR. PADDON: I believe I might have met him after I left, when I was with the department – or with the Auditor General's office.

MR. LEARMONTH: Okay.

At the bottom of page 5 of Exhibit 922, I'm just gonna read that paragraph.

Well the – actually the second-to-last paragraph on page 5 says: "The current review process of Muskrat Falls, and the Lower Churchill potential in general, is too narrow in scope to be informative in any meaningful" – way. "The current review being" – undertaken – "by PUB only considers Muskrat Falls versus an isolated island option with the development of small hydroelectric, wind and thermal generating projects The scope of independent review should be expanded to include all possible options" Et cetera.

Do you agree with that statement? You know, the scope of review that was in the PUB reference was rather limited. It was a choice between two options.

MR. PADDON: Right.

MR. LEARMONTH: As opposed to going – like they did in Nova Scotia – going to them and saying: What is the least-cost option?

MR. PADDON: Right.

MR. LEARMONTH: (Inaudible) then consider all of the alternatives.

MR. PADDON: I don't – Barry, it's difficult to comment now with the benefit of hindsight, but at that point in time – and I hadn't seen this – I wasn't, I don't think – I think we were happy with the reference as it was.

MR. LEARMONTH: Okay. You mean "we" meaning the Department of Finance, your department?

MR. PADDON: Or me in general.

MR. LEARMONTH: You. Okay.

And then the next paragraph says: “By limiting the scope and time for the PUB to conduct its independent review and maintaining Lower Churchill’s exemption from the purview of the PUB government is abdicating its responsibility to the people of Newfoundland and Labrador to do everything in their power to provide them with the highest standard of living and greatest degree of economic opportunity at the lowest cost and least risk, which are not equivalent. To ensure government is fully insulated from criticism and, more importantly, is absolved of any responsibility (to the extent that all current information allows) for potentially saddling the people of Newfoundland and Labrador with a massive unnecessary debt burden, government should delay a decision on Muskrat Falls for 1-2 years to allow a full assessment of alternatives and a complete analysis of the potential burden to taxpayers if development of Muskrat Falls has substantial cost overruns.” Et Cetera.

I mean, that’s pretty well spot on, isn’t it?

MR. PADDON: Certainly, in retrospect it is, yeah.

MR. LEARMONTH: Yeah.

But you didn’t – that wasn’t your way of thinking at the time?

MR. PADDON: No.

MR. LEARMONTH: And in January 2012?

MR. PADDON: Well, in fact, it probably was reasonably consistent with our way of thinking in that we did think that there should be an independent review sanctioned by the province of the risks – you know, the assumptions – the input into the decision-making process.

MR. LEARMONTH: But according – are you thinking of the MHI report – review? Something like that?

MR. PADDON: Well, our recommendation wasn’t necessarily MHI. Our recommendation was that you would get somebody equivalent to, say, an E & Y or a KPMG or –

MR. LEARMONTH: Yeah.

MR. PADDON: – Grant Thornton to do the review.

MR. LEARMONTH: Yeah, and that’s a – don’t you agree that that’s a reasonable approach to take? Look, we’re gonna have this, you know, reviewed from top to bottom before we sanction it?

MR. PADDON: Well, that’s why we had recommended it, yes.

MR. LEARMONTH: Yeah.

And who recommended it?

MR. PADDON: Well, Charles Bown and I put together the note, and it was signed by Ministers Marshall and Skinner.

MR. LEARMONTH: Yeah.

Now, that’s tab 39. I’d like you to turn to that. It’s Exhibit 00807. And if we turn to page 4 of this document, Sir, you can see it’s prepared – it’s entitled “Decision/Direction Note” – Department of Finance and Natural Resources. It’s prepared by Paul Myrden, Department of Finance, and approved by Terry Paddon and Charles Bown, and then it’s signed off by both ministers. That’s Mr. Skinner and Tom Marshall.

So that’s not like that Tymchak one. This is a real, formal document, isn’t it?

MR. PADDON: Right.

MR. LEARMONTH: Yeah.

And is it normal for there to be so many people signing off on a ministerial review of a document like this? Is that significant?

MR. PADDON: That’s the – no, that’s just the protocol.

MR. LEARMONTH: That’s the protocol.

Okay, let’s just turn back to page 2 of this document.

The top: “Decision/Direction Required: Whether to approve the selection and retention of a

qualified consultant to provide an independent review and report on the detailed project analysis prepared or commissioned by Nalcor, including an assessment of the various risks associated with the Muskrat Falls Hydro Development Project ... and their potential implications for the Province.”

Well, that sounds to be – do you agree that that’s a very reasonable approach to take?

MR. PADDON: Right.

MR. LEARMONTH: And then, you’re going down in the second-to-last paragraph of page 2, and you’re thinking of Pricewaterhouse and different groups who – or different people to conduct the review.

And then you refer, at the bottom of page 2, that “In addition to the above, Nalcor is also planning to undertake additional due diligence as follows: Completion of a project cost analysis by Independent Project Analysis ... an international organization that specializes in the review of large scale projects.

“Completion of a an” all “thorough review and commentary on the readiness of the project to proceed by Independent Project Review, a group recognized for their knowledge and experience in particular aspects of large scale project delivery.

“Retention of a consultant to complete an updated review of the Island Supply Decision.”

Now, you – someone in government must have known about this Independent Project Analysis and about this Independent Project Review, because if they didn’t know about it, they wouldn’t be able to refer to it in –

MR. PADDON: Right.

MR. LEARMONTH: – that report, that’s pretty obvious.

MR. PADDON: Right.

MR. LEARMONTH: But did government ever ask for these documents?

MR. PADDON: I can’t – I don’t know.

MR. LEARMONTH: Did you ever see either of the independent project analysis or the independent project review?

MR. PADDON: I don’t recall.

MR. LEARMONTH: Do you have any –

MR. PADDON: (Inaudible.)

MR. LEARMONTH: – knowledge now as to what the independent project review said about this –

MR. PADDON: No.

MR. LEARMONTH: – Muskrat Falls?

MR. PADDON: No. I wouldn’t be able to say.

MR. LEARMONTH: You wouldn’t?

MR. PADDON: No.

MR. LEARMONTH: Well, we’ll get into this later on, but Nalcor did not include it in the DG3 package, and we’ll have to find out the reason for that.

So you’re coming to the conclusion, or you’ve reached the conclusion, you need this independent review. You argue, you know, quite clearly for it. Well, what happened? I mean, that’s exactly what the province needed. What happened?

MR. PADDON: I don’t recall if – well, certainly there was no independent review as we envisages here. You know, the Manitoba Hydro one was, I guess, implemented shortly after this. I don’t recall it being intended to be this type of review that we were talking about. So I think this just didn’t go anywhere.

MR. LEARMONTH: Well, if this – this was prepared at, I would say, a high level – two senior ministers.

MR. PADDON: Right.

MR. LEARMONTH: If it was not followed, who would’ve turned it down?

MR. PADDON: Ultimately, I mean, this would've gone up to, I would say, the premier's office to get the decision. I mean, typically something like this, you're looking for a decision out of the premier's office to take action.

MR. LEARMONTH: Yeah. But were you disappointed that your – this strongly worded recommendation was not accepted by the premier?

MR. PADDON: I don't recall what my view was at the time. I, you know, I guess I can't remember.

MR. LEARMONTH: You don't know. Okay. But do you know whether there was any follow-up? I mean, if some – if two senior Cabinet ministers prepare a document like this and take the time to have it prepared and reviewed, I would think that there would be some follow-up if it wasn't followed. Is that a reasonable –

MR. PADDON: There would've been –

MR. LEARMONTH: – expectation?

MR. PADDON: There would have been likely follow-up on this, but I just don't recall what the outcome was.

MR. LEARMONTH: You don't know?

MR. PADDON: No.

MR. LEARMONTH: No. Okay.

But you can say that the recommendation was not accepted by government, can you?

MR. PADDON: It doesn't appear to be, unless government considered the Manitoba Hydro review to be the independent review.

MR. LEARMONTH: Yeah. Well, you –

MR. PADDON: But I don't know.

MR. LEARMONTH: You know what Manitoba Hydro's position is.

MR. PADDON: Now I do. Yeah.

MR. LEARMONTH: Now you do.

MR. PADDON: Yeah.

MR. LEARMONTH: Yeah. Well, anyway, that's for someone else to speak to.

Those are my questions. Thank you very much Mr. Paddon.

MR. PADDON: You're welcome.

THE COMMISSIONER: All right. Government – Province of Newfoundland and Labrador?

MR. RALPH: No questions, Commissioner.

THE COMMISSIONER: Okay. Nalcor Energy?

MR. SIMMONS: Thank you, Commissioner. Hello Mr. Paddon. Dan Simmons, as I think you know.

MR. PADDON: (Inaudible.)

MR. SIMMONS: Nalcor Energy. I'm going to ask you a few questions about the role of the Department of Finance as it relates to other departments of government or government agencies that undertake capital projects.

MR. PADDON: Yeah.

MR. SIMMONS: Just to get some background, because I know it's difficult to compare some of these directly to the Muskrat Falls Project but just to understand better the role the Department of Finance plays inside the bureaucracy. So the departments of government that I expect carry out capital work would be public works, probably Health, probably Education.

MR. PADDON: They would be the three main ones. Yeah.

MR. SIMMONS: The three main ones. So we'd have roads, hospitals, schools, those sorts of projects that –

MR. PADDON: That's correct.

MR. SIMMONS: – would be undertaken. And all those types of projects would involve construction, estimating the cost of construction and having to provide for the possibility of cost overruns, would they?

MR. PADDON: Correct.

MR. SIMMONS: All right. And for public works undertakings, generally, I think, public works contracts directly. So they're the owner of the project. They're the ones who'd be responsible for letting the contracts and doing all those things?

MR. PADDON: Generally, yes.

MR. SIMMONS: Generally the same for Health if it's a health care project?

MR. PADDON: Maybe, or they may use the Department of Transportation – or whatever – Works –

MR. SIMMONS: Okay.

MR. PADDON: – to be their go-between, if you want.

MR. SIMMONS: To carry out the activities – the oversight of the construction?

MR. PADDON: That's right.

MR. SIMMONS: And Education, probably similar to department (inaudible) –

MR. PADDON: Similar, I think. Yeah.

MR. SIMMONS: So in those cases where there is a capital project – a building to be built or a road to be built – and it has to be funded and financed, what's the role of the Department of Finance for a project like that inside of government?

MR. PADDON: So what would typically happen would be – typically this all happens as part of the budget process –

MR. SIMMONS: Mm-hmm.

MR. PADDON: – which happens on an annual basis. So the department would come forward

with a request for funding and here's our, kind of, our reason that we need it, you know, schools here were – you know, population projections are showing that we're going to need a school here or this school is rundown, that sort of thing.

So the first thing, you know, government would say, yeah, okay, we're – we think we need a school, but now we need to do a little bit of engineering work to get a sense of what the cost is. So government had a three- or four-phase approach to approving capital works and it was sort of a similar process to what you see.

Like, you start off with sort of your basic engineering, just a conceptual thing if you want to call it that, say, an order of magnitude. And government says, okay, well, that's within the realm of possibility; we'll approve it to go to the next stage. So you go back and do some more detailed engineering. So that whole process plays out and by the time you get to a point where you're prepared to commit money, you would have fairly significant design and engineering work done, so you've got a good sense of what the costs are.

So our – that would all be done by the department that is requesting the money, either Health or Education or Transportation and Works.

MR. SIMMONS: Mm-hmm.

Okay. And what's the Department of Finance's role, then, in that?

MR. PADDON: Well, we would say, okay, if it's – typically what would happen is, say, you've got an envelope of money that's available for spending as part of the budget process. So does –

MR. SIMMONS: Mm-hmm.

MR. PADDON: – this fit within the priorities, those sorts of things.

MR. SIMMONS: Mm-hmm.

MR. PADDON: And, you know, can we do it this year or do we need to divert it to next year, those sorts of things.

MR. SIMMONS: Right.

So what role does Department of Finance play, then, in assessing the estimated cost of carrying out a project like building a school?

MR. PADDON: Well, we wouldn't do any assessment on those costs.

MR. SIMMONS: Mm-hmm.

MR. PADDON: We would rely, again, on the engineering work that was done by the particular department.

MR. SIMMONS: So does anything more come in – is there anything more input into the Department of Finance's work other than the Department of Education or public works saying the school will cost \$6 million?

MR. PADDON: Not really, no.

MR. SIMMONS: Okay.

What about consideration of the potential for cost overruns over and above the estimated cost that's arrived at by the government department? Does the Department of Finance in the ordinary course concern itself with that?

MR. PADDON: Well, it would. They, you know, it – ultimately, you know, if anything goes over, the province has to fund it.

MR. SIMMONS: Mm-hmm.

MR. PADDON: So you would want to make sure that they're robust – that the estimates are as robust as possible. And I guess that's really why the government put in place – whatever year it was – this sort of phased approach in terms of approving capital projects –

MR. SIMMONS: Mm-hmm.

MR. PADDON: – to make sure that by the time you get to the approval that you've got the most robust estimate as possible. Always with the understanding that, you know, once you start the project and if you're over, understand that you're going to have to come back and request additional funds.

MR. SIMMONS: Okay.

So if the estimate, once it's completely worked up for the construction of a school, is \$6 million, Finance works \$6 million into the budget – into the budget estimates, I guess. Does it also provide then for some type of allowance for overruns or is that just dealt with if and when they happen?

MR. PADDON: That's essentially dealt with as it happens.

MR. SIMMONS: Now, is there any different approach taken depending on the size or scale of the capital project?

MR. PADDON: Not really, no.

MR. SIMMONS: So here then, what kind of expectations did the Department of Finance have as your – when you were deputy minister, for the Muskrat Falls Project around what its role would be or its involvement would be in assessment of the capital cost?

MR. PADDON: It was really a similar type of a role. We would expect that that – you know, the organization, which was Nalcor, which had the expertise to develop the cost estimates, would have done their appropriate processes and due diligence to make sure that you had a robust cost estimate at the end of the day.

MR. SIMMONS: And was the Department of Finance working with Nalcor to assess the robustness of the cost estimate? Was there a direct relationship between Nalcor and Finance concerning that?

MR. PADDON: No, I don't think I would say that. No.

MR. SIMMONS: Was that information coming to Finance through the Department of Natural Resources?

MR. PADDON: I – it would be coming – it could have come through Natural Resources; it could have come through directly.

MR. SIMMONS: Okay.

How much recollection do you have about how this works with Nalcor as the – are you – do you have clear recollections of what the structures were for communication of the cost information up to your department?

MR. PADDON: I don't have crystal clear recollection –

MR. SIMMONS: Mm-hmm.

MR. PADDON: – but when cost information adds, sort of, the business case, which included the cost information, was coming –

MR. SIMMONS: Yes.

MR. PADDON: – it would have come through directly from Nalcor as I recall.

MR. SIMMONS: Okay.

Can you recall yourself personally having any discussions or involvement with anyone from Nalcor about the cost estimates?

MR. PADDON: Yeah, without a doubt –

MR. SIMMONS: Mm-hmm.

MR. PADDON: – I did have discussions with, I would say, Derrick Sturge and Ed Martin –

MR. SIMMONS: Mm-hmm.

MR. PADDON: – over the years, either individually or in meetings with the minister and premier.

MR. SIMMONS: Mm-hmm.

MR. PADDON: Just sort of what was in the costs, how robust they were, you know, what's –

MR. SIMMONS: Mm-hmm.

MR. PADDON: – the level of precision on the (inaudible) those sorts of things.

MR. SIMMONS: Mmm.

Did the Department of Finance, either you or anyone else that were in Finance, set any criteria

for the information that you wanted from Nalcor about cost estimates?

MR. PADDON: No, I don't recall that. No.

MR. SIMMONS: Okay. All right.

What about for – and you've said that you knew that the cost estimate included a contingency within the cost estimate.

MR. PADDON: Right.

MR. SIMMONS: Yeah. How would you know that?

MR. PADDON: I would have been told either by Derrick or by Ed Martin, I suspect.

MR. SIMMONS: Okay.

When in the process were you told that? Was this on one occasion, a number of times?

MR. PADDON: Oh no, it would have happened on a number of occasions, yeah.

MR. SIMMONS: So you were generally aware, were you, throughout the process that the estimate included a contingency amount?

MR. PADDON: Yes, I was. Yeah.

MR. SIMMONS: Ever have any discussions with anyone in order to understand how much contingency was included in the estimate?

MR. PADDON: I would say, yes, but I can't remember specifically now, but ... but, you know, the amount would have been part of the discussion.

MR. SIMMONS: Were – did you make inquiries or can you remember making any inquiries into what the contingency amount was composed of, what made it up, how it was determined? Was that something you would have been interested in?

MR. PADDON: I don't recall that. Well, I just don't really – maybe, maybe not. I just don't recall.

MR. SIMMONS: So did the Department of Finance play anything like we call an audit function for things like capital costs, whether they were coming up from a project government was doing, you know, in another department or for the work that was being done at Nalcor and reported up through on the capital costs of this project?

MR. PADDON: No.

MR. SIMMONS: Okay, can we go to Exhibit P-00043, please?

You were referred to this earlier this morning. This was a briefing note and it's the one that was signed by Minister Skinner. I think it's from August 2011. We can scroll down a little bit so Mr. Paddon can see it, please.

MR. PADDON: Yeah, that's not a briefing note.

MR. SIMMONS: You recognize this one?

MR. PADDON: That's the Cabinet paper.

MR. SIMMONS: The Cabinet paper. I'm sorry, yeah. I can never keep these things straight.

So let's just jump ahead to page 19, please. So this is Annex D to the paper. And this is the draft of the Commitment Letter that was being considered then in August 2011. I think it's pretty much what was eventually signed off on.

MR. PADDON: Mmm.

MR. SIMMONS: And if then we scroll down, please, to the bottom and then – and at the bottom here, before paragraph number 1, it says: “As part of this process, Government is committed to do the following” And then scroll down to the top of the next page, please, and we'll see item 2.

So item 2 that the government commits to is: “Provide the base level and contingent equity support that will be required by Nalcor to support successful achievement of in-service for MF, the LTA and the LIL, in cases with and without the participation of Emera.” So there's a number of things bundled in there.

MR. PADDON: Mmm.

MR. SIMMONS: And I take it that this is where the province commits to providing the funds necessary to complete construction of the Muskrat Falls generating project; the Labrador Transmission Assets, which is the line from Churchill Falls to Muskrat Falls; and the L-I-L, the LIL, which is the transmission line from Muskrat Falls to Soldiers Pond. You understand that to be the case?

MR. PADDON: Yeah.

MR. SIMMONS: Okay.

And it says: “Provide ... base level and contingent equity support” – so what's the difference between base level equity support and contingent equity support?

MR. PADDON: So the base level of equity would be – based on your estimate of costs –

MR. SIMMONS: Yes.

MR. PADDON: – that you figure is your best guess at this time – this is how much the province will have to contribute as part of their equity commitment.

MR. SIMMONS: Right.

MR. PADDON: Contingent equity is if things go wrong –

MR. SIMMONS: Mm-hmm.

MR. PADDON: – if there are overruns –

MR. SIMMONS: Mm-hmm.

MR. PADDON: – then the province will provide additional equity to cover those overruns.

MR. SIMMONS: Okay.

So the base level of equity – would that be the province's equity contribution to the estimated capital cost for the project, which includes the contingency that we talked about?

MR. PADDON: Right.

MR. SIMMONS: Right.

So, if we take the \$6 billion figure that was used at DG3 – I think 5 billion was going to be borrowed and 1.2 was equity – maybe I’ve got that wrong – but some portion of that is equity –

MR. PADDON: Somewhere in that range, yeah.

MR. SIMMONS: – and some portion is debt –

MR. PADDON: Yeah, that’s right.

MR. SIMMONS: – but the 6.2 includes the contingency that we talked about.

MR. PADDON: Well, the six point – yeah –

MR. SIMMONS: Yes.

MR. PADDON: – not the contingency in terms of contingent equity –

MR. SIMMONS: No –

MR. PADDON: – the other (inaudible) –

MR. SIMMONS: Okay –

MR. PADDON: – yeah.

MR. SIMMONS: – right.

MR. PADDON: – yeah.

MR. SIMMONS: Yeah, yeah.

So it’s a contingent figure that’s not part of the actual base estimate cost of the project; it’s an allowance in case costs increase –

MR. PADDON: That’s right.

MR. SIMMONS: – for things where there’s been an identified risk –

MR. PADDON: That’s right.

MR. SIMMONS: – of cost increasing.

MR. PADDON: That’s correct.

MR. SIMMONS: Okay.

Let me step outside of this for a second, and ask you a question I meant to ask earlier. You’ve had some questions about strategic risk. In project cost estimating, do you have any knowledge or expertise about the distinction between strategic risk and tactical risk, and how that’s taken into account?

MR. PADDON: No real expertise in that, no.

MR. SIMMONS: Is that even a concept that you would have been aware of along the way?

MR. PADDON: Not along the way, no.

MR. SIMMONS: No.

MR. PADDON: It would have been outside my, you know, experience, shall we say.

MR. SIMMONS: Okay.

But the concept of the base-level equity support and the contingent equity support is something that, as we say, is in your wheelhouse.

MR. PADDON: Sure, yeah.

MR. SIMMONS: Right. Okay.

So that’s what the base-level equity support is for; the contingent equity support is for what, again?

MR. PADDON: Overruns, essentially.

MR. SIMMONS: Mm-hmm. Okay.

So, by the time that this Cabinet paper was done, how much information did Finance have about the amount that was going to be required for base-level equity?

MR. PADDON: Well, we knew what the estimate was.

MR. SIMMONS: Yes.

MR. PADDON: Yeah.

MR. SIMMONS: And did you need anything more than that in order to be able to assess the base level of equity, or was that sufficient – knowing the estimate number?

MR. PADDON: That was what we needed to know – what was required of us – and, I guess, the time frame over which it would be required.

MR. SIMMONS: And you've told us earlier that your department didn't have the resources or, I guess, or the expertise to go behind the estimate number in order to evaluate whether there was enough money for steel or enough allowed for accommodations or those sorts of things?

MR. PADDON: That's correct.

MR. SIMMONS: Wasn't your role to do that. Was it the Department of Natural Resources role to consider those things?

MR. PADDON: I don't know if it was their –

MR. SIMMONS: (Inaudible.)?

MR. PADDON: – I mean, I guess to the extent the Department of Natural Resources was the – I know the host department is not the right way to describe it –

MR. SIMMONS: Yes.

MR. PADDON: – but the, you know, the department that Nalcor reported through. You know, if anybody was going to look at it, it perhaps would have been them.

MR. SIMMONS: Mm-hmm.

MR. PADDON: But I'm not sure they had the expertise either.

MR. SIMMONS: Mm-hmm.

MR. PADDON: So –

MR. SIMMONS: Okay.

If there was a question about whether it should be looked at, whose responsibility was it to think of that and ask the question, Finance or Natural Resources?

MR. PADDON: Probably a combination of both, I suppose.

MR. SIMMONS: Mmm.

MR. PADDON: Right?

MR. SIMMONS: That question ever come up? Was that something that was considered?

MR. PADDON: I – that's the nature of that briefing note that I just –

MR. SIMMONS: Okay.

MR. PADDON: – talked to Mr. Learmonth about.

MR. SIMMONS: Okay, good.

So that's – so the – so you had the estimate in order to allow an assessment of the base level of equity support. What, if anything, was done to assess how much contingent equity support might be required if it were required?

MR. PADDON: Well it's a, kind of a, 'how long is a piece of string' question, isn't it?

MR. SIMMONS: Mm-hmm.

MR. PADDON: Because you don't know –

MR. SIMMONS: Mm-hmm.

MR. PADDON: – what you're going need until you actually need it.

MR. SIMMONS: Mm-hmm.

MR. PADDON: In our own minds, I think we were thinking in terms of, you know, maybe a \$500 million kind of amount.

MR. SIMMONS: Now, whose –

MR. PADDON: But –

MR. SIMMONS: – in whose minds was that?

MR. PADDON: This would be in my mind –

MR. SIMMONS: Was that communicated –

MR. PADDON: – in the Department of Finance.

MR. SIMMONS: – with anybody?

MR. PADDON: I would say. I just – I don't recall specifically but yeah, certainly I probably would have talked to the minister about it over – (inaudible) the meetings.

MR. SIMMONS: Mmm.

MR. PADDON: So –

MR. SIMMONS: So where did the 500 million come from?

MR. PADDON: It's not a firm number, it's just saying, okay, I mean, in – around orders of magnitude, you know, what is the likely –

MR. SIMMONS: Mm-hmm.

MR. PADDON: – need in terms –

MR. SIMMONS: Mmm.

MR. PADDON: – of contingent equity.

MR. SIMMONS: So was that a – I mean, it can't just be a number pulled out of the air. There must have been some kind of analysis or assessment done in order to make – to come up with – that's a half a billion dollars?

MR. PADDON: Right. It – I mean, I didn't have the capacity to do –

MR. SIMMONS: Mmm.

MR. PADDON: – any assessment because you really don't know until –

MR. SIMMONS: Right.

MR. PADDON: – you know, if you ask –

MR. SIMMONS: Mmm.

MR. PADDON: – Nalcor they would say no, you don't need any because we're comfortable with our numbers and here it is.

MR. SIMMONS: Okay, did you ask Nalcor if you needed anything for contingent equity?

MR. PADDON: I believe they provided an estimate of what the contingent equity was, I just don't recall.

MR. SIMMONS: Okay.

Who provided that?

MR. PADDON: Derrick, I would expect.

MR. SIMMONS: Right, okay.

So if Mr. Sturge recalled giving some information to you about a value for a range for contingent equity –

MR. PADDON: Mmm.

MR. SIMMONS: – that would be appropriate information for us to consider here, would it?

MR. PADDON: Yes, I think so, yeah.

MR. SIMMONS: Do you recall him doing that?

MR. PADDON: I don't recall specifically, no.

MR. SIMMONS: Okay.

So while you might not recall any discussion of strategic risk or valuing strategic risk – which I understand is a concept you weren't familiar with – in your world, valuing contingent equity would be more important to you?

MR. PADDON: I guess, yes.

MR. SIMMONS: Okay. Now, this idea that there's – you should consider about 500 million for contingent equity, what became of that? Did that – does that find its way into – onto the government books somehow? Do you record a potential liability or a reserve or something if –

MR. PADDON: (Inaudible.)

MR. SIMMONS: – you think there's an equity amount that might have to be called upon in future?

MR. PADDON: You wouldn't – well you won't – well you wouldn't record it until you actually incurred it.

MR. SIMMONS: Okay.

MR. PADDON: If at some point you become aware that government is committed to spend a certain amount –

MR. SIMMONS: Yes.

MR. PADDON: – in the future –

MR. SIMMONS: Yes.

MR. PADDON: – you would have to record that in the notes in the financial statements, but you wouldn't record the liability until –

MR. SIMMONS: Right.

MR. PADDON: – it actually got incurred.

MR. SIMMONS: So if someone had said to you Nalcor had a consultant that did a report and said there's a strategic risk here, and strategic risks are things outside of what we can account for in the estimate, and the value is about \$500 million. What would you have done with it? If anything.

MR. PADDON: Probably nothing at the time.

MR. SIMMONS: Would you have done –

MR. PADDON: No.

MR. SIMMONS: – anything different than what you did with your own assessment that there was probably a \$500 million contingent equity here?

MR. PADDON: Probably not, no, I don't think.

MR. SIMMONS: Thank you. I don't have any other questions.

THE COMMISSIONER: All right.

Concerned Citizens Coalition.

MR. BUDDEN: Good day, Sir. My name is Geoff Budden. I'm the lawyer for the Concerned Citizens Coalition –

MR. PADDON: Okay.

MR. BUDDEN: – which, as you probably know, you've been following the Inquiry, the

Coalition is a group of individuals who have for a number of years been critics of the Muskrat Falls Project.

MR. PADDON: That's right.

MR. BUDDEN: So you're probably familiar with some of them. With Mr. Vardy I would assume?

MR. PADDON: Yeah.

MR. BUDDEN: Mr. Penney as well. Okay.

How do you know those individuals?

MR. PADDON: I don't know specifically, I just have known them over the years. They're both former public servants, and I would just – would have had some contact with them in various capacities.

MR. BUDDEN: Sure, okay.

During your tenure as the deputy minister of Finance, what were some of the other significant capital projects that would have come to the Department of Finance for review? I'm thinking of, you know, schools, hospitals, The Rooms, that kind of stuff. Just a couple of examples.

MR. PADDON: The Rooms would have been before my tenure as deputy. It really would've been probably schools and long-term care type facilities. Those sorts of things.

MR. BUDDEN: Sure.

MR. PADDON: Yeah.

MR. BUDDEN: So, just pick an example of, say, one of those –

MR. PADDON: You're testing my memory now. I can't remember specifically –

MR. BUDDEN: Okay.

MR. PADDON: – you know, which school, for argument's sake.

MR. BUDDEN: Okay. So, for example, a school would be a \$10 million capital cost project, something like that, right?

MR. PADDON: (Inaudible) yeah.

MR. BUDDEN: Okay, what – and the department had a mandate, as you advised in your interview with Mr. Learmonth, to review any major projects such as that. That would be part of the mandate of the Department of Finance, I would assume.

MR. PADDON: Yep.

MR. BUDDEN: Sure. How would that scrutiny be carried out?

MR. PADDON: Well, the scrutiny is really carried out by ensuring that the department that the request for funding is coming through has done their homework in terms of engineering costs and those sorts of things.

MR. BUDDEN: Sorry?

MR. PADDON: That they've done their homework in terms ensuring the appropriate engineering's done as, you know, as they move through the process to get their project approved.

MR. BUDDEN: Okay. And how, in practice, would that actually be done? Would you simply say, guys, have you carried out the appropriate engineering or would it be more than that?

MR. PADDON: No, no. It probably would be not much more than that. But they would, you know, they would come forward and say, okay, we've done the detailed design work now, we've done the detailed engineering, here's what our engineering is saying; it's gonna cost \$10 million.

MR. BUDDEN: Okay. So was that very different than the way the Muskrat Falls oversight was conducted or was it about the same?

MR. PADDON: Conceptually, it was about the same, I guess.

MR. BUDDEN: Okay.

MR. PADDON: The magnitude was different, obviously, but ...

MR. BUDDEN: Sure. But if it's conceptually the same, was the degree of oversight all that different?

MR. PADDON: Probably not. You know, in this case, there was a reliance on Nalcor, who had the engineering expertise or had hired the engineering expertise to develop the cost estimates.

MR. BUDDEN: So if the Department of Education came along and said, look, we need a new high school in the west end of St. John's that gonna cost \$12 million. You would say, okay – you'd have a checklist, I presume, or not you personally but someone in your department would –

MR. PADDON: Right.

MR. BUDDEN: – said, you know, have you done this, have you done that, and so forth.

MR. PADDON: Yep. That'd be about right, yeah.

MR. BUDDEN: Sure. And I would suggest to you that's actually pretty similar to what happened, when you get right down to it, with regard to Muskrat Falls and the oversight there.

MR. PADDON: In terms of cost estimates, for sure, yeah.

MR. BUDDEN: Sure.

MR. PADDON: (Inaudible.)

MR. BUDDEN: Okay.

So whether it's a \$12 million school or a \$6 billion hydroelectric project, the level of scrutiny from the department would be about the same.

MR. PADDON: And again it gets back to, you know, the capacity to be able to challenge or to review the numbers. Again, we're accountants and economists. We're not engineers, so it would be difficult for us to do any substantive work to determine whether the costs are reasonable or not.

MR. BUDDEN: Sure. I would suggest to you –

MR. PADDON: Apart from hiring somebody to do it. Yeah.

MR. BUDDEN: Yeah. That was, sort of, my next question. If you're getting into areas where multi-disciplinary skills are required, none of us are all of those things.

MR. PADDON: Right.

MR. BUDDEN: But surely it would have been, I presume, some precedent within the department to engage externally with expertise to facilitate a review if one was necessary.

MR. PADDON: I don't specifically recall having done that during my tenure there. No.

MR. BUDDEN: Okay.

MR. PADDON: That's not to say that we couldn't if, you know, if we thought it was necessary we could've suggested it or looked for a decision on it, similar to what we have here.

MR. BUDDEN: Okay. But at no time during your tenure, I take it –

MR. PADDON: I don't recall, no.

MR. BUDDEN: – was it thought, either for the school or for Muskrat Falls or anything else.

MR. PADDON: No.

MR. BUDDEN: Okay.

We've heard that the project had – that Nalcor and the project team had strong support, had strong relationships with the premiers of the day, which during your time – the pre-sanction time – would have been Premier Williams and Premier Dunderdale.

Do you feel that those strong relationships played any role at all in the ability of the Department of Finance to exercise its supervisory mandate over capital costs?

MR. PADDON: No, I don't think so. I wouldn't say that. No.

MR. BUDDEN: Okay.

In hindsight, I mean, I realize obviously this is hindsight. This whole Inquiry is, but casting your mind back, were there tools in the tool box of the Department of Finance available to you that could have been used to exercise a greater degree of oversight than in fact was carried out over the Muskrat Falls Project.

MR. PADDON: I'm not sure if there was any other tools in the tool box, you know, other than had there been this sort of independent review that we had recommended.

MR. BUDDEN: Okay. Do you see that as a, I guess, a structural weakness, in retrospect, obviously? Or, okay, let's do it differently. At the time, were you concerned about that as deputy minister, did you see that as a lack of a necessary resource within in the Department of Finance to be able to have some mechanism for conducting capital cost reviews?

MR. PADDON: No. You know, the types of capital cost that we looked at within the government were quite a bit different. Certainly, the scale was completely not the same at all.

I didn't see that there was a need for us to have somebody on our staff who could then go in and – you know, an engineer or a multi-disciplinary person, as you suggest. But, you know, at the end of the day, you know, perhaps you're all one family. I was part of government, so, you know, you rely on the expertise that's developed in the various departments. That's why they have the expertise to be able to do that, so ...

MR. BUDDEN: Sure.

MR. PADDON: Similar to Nalcor, I guess.

MR. BUDDEN: So your – if I understand you correctly – the Department of Finance, which obviously had many responsibilities, it wasn't regarded as one of those responsibilities to give a close scrutiny when another department came to you and said we have a capital cost project that we require financing for?

MR. PADDON: Only to the extent that we would make sure that they had done the appropriate engineering work and they were comfortable with the cost estimates, those sorts of things. But other than that, no.

MR. BUDDEN: Sure. And when you say we would make sure, you would basically just ask them if they'd done it?

MR. PADDON: Right.

MR. BUDDEN: Okay.

MR. PADDON: Yeah.

MR. BUDDEN: So I take it that it wasn't regarded as part of the department's responsibility, or you as DM did not regard it as part of the department's responsibility to determine whether there was a sound business case for Muskrat Falls?

MR. PADDON: We were certainly involved in looking at the business case. So, you know, I mean, the numbers that came out of Nalcor in terms of the revenue and the costs, we looked at those for sure. But that's not the same.

So, you know, does the mathematical integrity of the models work? And, you know, does the business case throw off, you know, sort of the expected profit or, you know, whatever? But that's not the same as going in and saying, okay, now, we're gonna do a detailed review of what's substantive behind that, the detailed engineering costs of the – which was –

MR. BUDDEN: Sure.

MR. PADDON: – probably the most significant item.

MR. BUDDEN: Okay.

If it wasn't a responsibility of the Department of Finance, I guess my question is: Did anybody within the Government of Newfoundland – or can you think of any division within the Government of Newfoundland, department or otherwise, that would have had a responsibility for doing such a close review of a Crown corporation which, after all, is outside the structure of government?

MR. PADDON: It's outside the structure of government, but it's still a Crown corporation, still owned by government, so it's part of the government family if you want to call it that.

MR. BUDDEN: Okay.

MR. PADDON: The only other department that would have potentially looked at it or could have looked at it would have been the Department of Natural Resources because that was the department that, you know, was responsible for Nalcor. Nalcor reported through them. But I'm not aware that they did anything.

MR. BUDDEN: Okay, were – was it your –

MR. PADDON: Other than – I'll go back to that, you know, recommendation that we made, which both me and the deputy of Natural Resources had made, that there should be an independent review.

MR. BUDDEN: Okay. So Finance would have relied on Nalcor and perhaps on the – on Department of Natural Resources.

MR. PADDON: Perhaps, yeah.

MR. BUDDEN: Sure. Okay.

Can you recall any discussions with Mr. Bown or anybody else within that department as to look are you guys on this, are you guys reviewing this?

MR. PADDON: Well, you know, I knew they weren't. You know, I – you just – don't know how you know; you just know that that's – that wasn't part of what they were doing, which is likely the discussion. I can't remember the details of the discussion that led to this briefing note, but you know, that would have been the type of discussion that would have generated this recommendation for review.

MR. BUDDEN: How familiar are you with the – to switch topics a bit here – how familiar are you with the Power Purchase Agreement between Nalcor and Newfoundland Hydro?

MR. PADDON: I'm not familiar with it at all, really.

MR. BUDDEN: Okay. Was that something that was being negotiated or executed during your tenure as DM or did it fall after that?

MR. PADDON: It may have fallen after that. I just can't remember.

MR. BUDDEN: Okay.

MR. PADDON: I don't recall it, for sure.

MR. BUDDEN: Okay. I might refresh you a bit. Are you aware – or I guess you're probably aware of a lot of things; you've been following the Inquiry.

But before the commencement of this Inquiry process, were you aware that the financing arrangements of the Muskrat Falls Project required that the Government of Newfoundland inject equity up front but that it would be repaid on its investment when the power was purchased by ratepayers a number of years down the road? Was that a detail of the Power Purchase Agreement that you were familiar with at all?

MR. PADDON: No. No.

MR. BUDDEN: Okay.

So you're not able to comment on what risks would be inherent in such a scheme, the possible benefits, the possible downsides of it?

MR. PADDON: No, I don't recall that at all.

MR. BUDDEN: Okay.

MR. PADDON: No.

MR. BUDDEN: Perhaps we could call up Exhibit 00065?

This, Mr. Paddon, is the document that's referred to as the federal loan guarantee, and it's page 6 that I'm interested in.

And if we can scroll down just a tiny bit more. Yes.

3.5 is federal loan guarantee Conditions Precedent. And perhaps, Mr. Paddon, you can read to us A through Roman numeral i?

MR. PADDON: "The following conditions precedent (the "FLG Conditions Precedent") must be satisfied in form and substance acceptable to the Guarantor prior to the

execution and delivery of the FLG for all Projects: (i) Confirmation by Credit Rating Agencies of indicative credit ratings for each of MF, LTA, and LIL (prepared on a non-guaranteed basis) equal to or higher than investment grade."

MR. BUDDEN: Okay. Firstly, I have a couple of questions about it, but perhaps can you explain to us the significance, perhaps in more straightforward language, of what Newfoundland was agreeing to here?

MR. PADDON: Really what it's saying is that – what the federal government – what my recollection is is they wanted to ensure that the project, in the absence of a guarantee, would have received an investment-grade rating from the rating agencies.

MR. BUDDEN: Okay. And the significance of an investment-grade rating would be?

MR. PADDON: Well, you know, it carries lower interest rate when you go to the market to borrow the money, those sorts of things.

But I think from the federal perspective, my recollection is, is that they wanted to make sure that the project – in the absence – you know, that the project stood on its own, that it wasn't just being financed because it had a guarantee, that, in the absence of a guarantee, it still would have had an investment-grade credit rating and they could have gone to the market in the absence of a guarantee.

MR. BUDDEN: Sure. So I take it if this is a condition precedent, then it follows – since we all know the loan guarantee is in place – it follows that Newfoundland did secure the confirmation by the credit rating agencies of "indicative credit ratings for each of MF, LTA, and LIL (prepared on a non-guaranteed basis) –"

MR. PADDON: Nalcor got the rating.

MR. BUDDEN: Okay. And the Government of Newfoundland confirmed that rating was obtained?

MR. PADDON: I guess, yeah. But it was Nalcor's debt, so Nalcor was the – were the ones

that went to the rating agencies to seek the rating.

MR. BUDDEN: Okay. So – and I take it from that that this essentially confirmed that Muskrat Falls could have been financed without the federal loan guarantee, though obviously not at the rate the –

MR. PADDON: That's right.

MR. BUDDEN: Okay. So that was confirmed?

MR. PADDON: Yes.

MR. BUDDEN: Okay.

Do you know what conditions might have been imposed on the province in return for securing this – these indicative credit ratings?

MR. PADDON: Conditions by – imposed by?

MR. BUDDEN: (Inaudible) by the credit rating agencies.

MR. PADDON: They wouldn't impose –

MR. BUDDEN: In terms of budgets or anything like that?

MR. PADDON: No, they don't – they wouldn't impose conditions. They would just look at the project and the business case that Nalcor would have put forward, ask questions and say, okay, based on what we see, here's how we will rate the project.

MR. BUDDEN: So as –

MR. PADDON: They wouldn't put conditions on it.

MR. BUDDEN: As far as you're aware, there were no particular conditions that were – or guarantees, assurances required from the province simply from Nalcor?

MR. PADDON: No.

MR. BUDDEN: Okay.

Under what circumstances might the Government of Newfoundland and Labrador

have to repay any of the federal loan guarantee guaranteed debt? How might that happen?

MR. PADDON: I guess if Nalcor defaults on the repayment of the debt.

MR. BUDDEN: So it's essentially guarantees stacked on top of guarantees. The federal government guarantees that to the credit – to the lenders that the debt will be repaid.

MR. PADDON: Right.

MR. BUDDEN: But in turn, Newfoundland has guaranteed to the federal government that Nalcor will complete the project.

MR. PADDON: Yeah, that's right.

MR. BUDDEN: Okay. And all of it flows back to the Power Purchase Agreement and the ratepayers paying that to allow all the other things to happen?

MR. PADDON: I think so, yeah.

MR. BUDDEN: Okay.

Did – were there any of the terms of the federal loan guarantee that caused any concern to the Department of Finance?

MR. PADDON: Well, the two aspects of it that, I guess, there was – I guess, short answer, probably no. But there were certainly two aspects of it that we knew would be – I doubt problematic is the right word, but certainly an issue. One was the, I guess, removing the PUB oversight, which I think was part of that, and the other was the commitment letter that was required. I think that came out of that as well.

MR. BUDDEN: Mm-hmm.

MR. PADDON: And certainly, I think, everybody knew that the PUB issue was going to be a fairly big public issue, and there was quite a bit of discussion, most amongst officials, but also with the premier and ministers as well. It's just so they made sure that they understood what the ramifications were.

MR. BUDDEN: Okay, so even within Finance, the limitations that were now imposed on future

actions that the PUB – were noted and of concern?

MR. PADDON: Well, certainly noted. I'm not sure – I mean, I understood the rationale for it, because it was all part of the financing deal, and in order to provide that clear sight, you know, that the lenders could ensure that they get the coverage on their debt. I mean, I understood the rationale, but I also knew that it was going to be a significant issue for the public, so that's, you know, sort of (inaudible) discussion around it.

The other thing was on the – lost my train of thought now. So the PUB, but the other thing was on the commitment letter. And you know, I guess it was always implicit that, you know, once you started on this project, I mean, you're going to finish it.

MR. BUDDEN: Mm-hmm.

MR. PADDON: Now all of a sudden it was explicit, because it's in a, sort of, a letter, and the province has to explicitly commit to it.

MR. BUDDEN: No exit ramps?

MR. PADDON: No exit ramps. And you know, there was a fairly considerable amount of discussion around that as well, again, between officials and with Premier Dunderdale.

MR. BUDDEN: Okay.

You say discussion was disquiet expressed by officials of your department, at least, or any other officials that you were aware of.

MR. PADDON: I'm not sure how you'd – disquiet, but certainly there was broad discussion around the implications of this, and making sure that the premier and the ministers were aware that, you know, once you sanction the project, you know, you're seeing it through to completion. And that's (inaudible).

MR. BUDDEN: As you've guaranteed, the Government of Newfoundland has guaranteed that.

MR. PADDON: That's right.

MR. BUDDEN: Yeah.

MR. PADDON: Now, I'm not quite sure whether that had been explicitly thought about before, but this was certainly putting it right in the (inaudible).

MR. BUDDEN: Sure. Yeah.

You left your office as deputy minister of Finance some months before sanction and moved to another position. Did these sanction discussions have anything to do with that, or was that move made for personal reasons?

MR. PADDON: Oh, I had – it was for personal reasons, I –

MR. BUDDEN: Okay.

MR. PADDON: – you know, I – just ready for a move, so I (inaudible) –

MR. BUDDEN: Nothing to do with why we're here today.

MR. PADDON: No.

MR. BUDDEN: Okay.

You – we – you've already testified – I won't belabour the point – about the Manitoba Hydro International. There was a press release – I won't bother to call it up – but just in the immediate wake of the failure to – of the PUB to come to a decision in the spring of 2012, there was a call by the Government of Newfoundland, essentially that they would be having an external and independent report completed, and MHI were announced as the consultancy that were going to do that.

What was your – did it – were – okay, firstly that term: external and independent. Were you in – at all involved in the formation of that?

MR. PADDON: No.

MR. BUDDEN: Okay. Were you still there at that point, or had you moved on?

MR. PADDON: If that was in the spring of 2012.

MR. BUDDEN: Yes.

MR. PADDON: It was just before I left.

MR. BUDDEN: Okay.

Was what Manitoba Hydro International ultimately were tasked with, is that – does that fall within your understanding of what an external and independent review would –

MR. PADDON: I can't remember –

MR. BUDDEN: – be?

MR. PADDON: – what their task would – what their – I don't know what the terms of reference was, I just –

MR. BUDDEN: Okay, you weren't at all involved in those?

MR. PADDON: No. No.

MR. BUDDEN: Okay.

During your period as – your tenure as Auditor General, I realize almost all of it was post-sanction, but did you, at any point, have any reason to inquire into any aspect of the Nalcor decisions or actions pre-sanction?

MR. PADDON: No, not as Auditor General, no.

MR. BUDDEN: Okay.

Perhaps we can call up Exhibit 00797, Madam Clerk? What this is, Mr. Paddon, is an organizational chart for the financial division of Nalcor. I don't know, did you have the opportunity to see our – Mr. Sturge's testimony the other day?

MR. PADDON: I saw bits and pieces of it.

MR. BUDDEN: Okay, sure.

You may recall, when I was questioning – and others were, as well – Mr. Sturge, I queried him as to how the risk within Nalcor was noted and how it was essentially treated. And the evidence of Mr. Sturge, as I understood it, is that the project team, essentially, managed the Muskrat Falls risk separately from what appears to be the structure here on the Exhibit 00797, which

shows a chief risk officer named Jim Meaney, I believe.

MR. PADDON: Hmm.

MR. BUDDEN: And then ultimately Mr. Sturge as the CFO vice-president financial. His evidence – Mr. Sturge's evidence is that Mr. Meaney – his responsibility would have been met by simply being assured by the project team that they were maintaining the appropriate risk management registers and so forth.

Does that give you – and you spoke as well of – I believe it was your interview, spoke of Mr. Sturge. You're familiar with Mr. Sturge, I presume.

MR. PADDON: Correct, yeah.

MR. BUDDEN: And you're familiar with the principles of Corporate Governance, I assume, at least in the general sense.

MR. PADDON: A general sense. Yeah.

MR. BUDDEN: What concerns do you have arising out of that evidence?

MR. PADDON: That – so that, the chief risk officer, you mean, wasn't directly involved in assessing the risk on the project itself.

MR. BUDDEN: Or maintaining a risk register. Anything to do with risk of the project was essentially – he was out of the loop on – I believe that is the expression that was used.

MR. PADDON: That – those comments did surprise me. That, you know, the out of the loop comments. But, you know, at the end, I'm not quite sure whether Mr. Meaney feels that the processes he has in place – even though he's removed from it – are sufficient. I just don't know because, obviously, I haven't spoken to him.

MR. BUDDEN: Sure. Just a –

MR. PADDON: But I was a bit surprised about some of the comments that Mr. Sturge made about not being, sort of, in the loop on the costing side of it and the –

MR. BUDDEN: Why were you surprised?

MR. PADDON: I thought he was – I thought he was more heavily involved than, sort of, the impression he gave.

MR. BUDDEN: So when you were the deputy minister of Finance, the impression Mr. Sturge gave you was that he was much more heavily involved in all those aspects of the project than he appears to have been.

MR. PADDON: Yeah. That was certainly the impression. He probably didn't say it as explicitly as you just said it, but he was certainly – I would've had the impression that he had a more contact or more dealings with the engineering of the costing side of it.

MR. BUDDEN: Okay.

Perhaps we could call the Exhibit 00922, please, Madam Clerk. And this – you were examined near the end of your evidence by Mr. Learmonth on this. And perhaps we could scroll down to the conclusion, which is, I believe, the final page. I believe it's a six-page document. Yes.

I won't go into it in any length, but I believe Mr. Learmonth asked you: Was this analysis in retrospect spot on? And I believe you indicated that it was. Do you recall saying this a few moments ago?

MR. PADDON: Mm-hmm.

MR. BUDDEN: Okay.

I guess I can point out something to you, I guess the fairly obvious point, it may be spot on in hindsight, but this wasn't made in hindsight was it? This was actually made in January of 2012.

MR. PADDON: That's correct, yeah.

MR. BUDDEN: Okay. Would you agree that this analysis conducted by – apparently by lower-level officials in your department appears to have been more prescient as to some of the concerns than was the analysis conducted at the highest levels of your department?

MR. PADDON: Certainly he had a view that, in retrospect, has proven to be probably correct.

MR. BUDDEN: Okay. And you weren't, at the time, aware of this information note?

MR. PADDON: No, I wasn't, no.

MR. BUDDEN: Did you – and think carefully about this because I believe it's important – did you have any sense at all that certain of your officials – I know it was a big department, but did you have a sense that some of the individuals at a somewhat lower level of the department held these concerns?

MR. PADDON: No.

MR. BUDDEN: So this was a total surprise to you?

MR. PADDON: I was very surprised when I saw that, yeah.

MR. BUDDEN: Okay. So you had no idea at all this view, this dissent existed?

MR. PADDON: That's right.

MR. BUDDEN: Okay. Were there any mechanisms by which concerns of this nature could be brought forward to you as DM?

MR. PADDON: I would think that if they felt strongly – I mean they would normally go through their – whatever the hierarchy is that came up through that if they felt strongly enough – well, ultimately, they could've come to me, directly. There was no reason not to. But the normal protocol would have been to come through their ADM and sort of ask for that to be advanced.

MR. BUDDEN: So somewhere between them writing this prescient memo and you, the news stopped?

MR. PADDON: Yeah. I have no idea what happened to it, but it obviously didn't get that far.

MR. BUDDEN: Okay, sure.

Last couple of questions. You know we're here – why we're here, we're here because the schedule of the project and the cost of the project have gone far beyond what was –

MR. PADDON: Yeah.

MR. BUDDEN: – proposed in 2012 at sanction. And you’ve obviously been following the – this evidence here, this Inquiry fairly closely. You know as well that this Inquiry has heard from Mr. Stanley, from yourself. You probably know we’ll hear from Mr. Thompson and Mr. Bown.

So, basically, all of you would’ve, at that time, been at the fairly highest levels of the Government of Newfoundland civil service.

MR. PADDON: That’s right.

MR. BUDDEN: Okay.

Do you believe that the mistakes that have led us here today, the errors that have led us here today, are primarily an issue of errors made within the civil service, or more in terms of the political direction given to the civil service?

MR. PADDON: I wouldn’t say it’s – and when you say “civil service,” you mean the broad civil service, including Nalcor?

MR. BUDDEN: No, I don’t.

MR. PADDON: Okay.

MR. BUDDEN: I just mean the civil service of the Government of Newfoundland and Labrador, excluding Nalcor.

MR. PADDON: Maybe you could repeat your question in that case.

MR. BUDDEN: Sure. Do you believe that the errors which appear to have occurred are the errors of the civil service, or are they more political errors in how the civil service was tasked, was empowered?

MR. PADDON: Well, I’m not quite sure how to answer that question –

MS. E. BEST: Commissioner, I’m not sure this is an appropriate question to be asking the witness. This seems like something that you would be deciding.

THE COMMISSIONER: Yes, it would. I’m trying to understand, exactly, what the import of the question is.

MR. BUDDEN: Can I speak to it, perhaps?

THE COMMISSIONER: Go ahead.

MR. BUDDEN: My thinking is that this gentleman was there at the time, he was at the – up at the highest levels of the Department of Finance. And that’s why he’s here. Justifying what he did or didn’t do.

And my question is ultimately – we all understand civil servants act on instructions. They’re not independent actors. They’re tasked with powers and functions. And my question to him: Where did the problem occur here? Was it a problem with how the civil servants carried out – the civil service carried out the tasks and functions that were assigned to them? Or is it a problem with the political level of governance, with how they were tasked?

THE COMMISSIONER: I think I can hear the answer to this question.

MR. BUDDEN: Yeah, it’s ultimately your question but I think this gentleman may have –

THE COMMISSIONER: I think, like Mr. Stanley, he’s a – this gentleman was a senior public servant, and so he may have some thoughts that might assist me later with regards to recommendations I might or might not make with regards to what needs to change. So yes, I wouldn’t mind hearing that from him.

MR. PADDON: I’ve had a couple of minutes now to think about my answer and I’m not quite sure how to answer it, because, I mean, you’re asking me, you know –

THE COMMISSIONER: Try to do it this way, you’re – we’re sitting here now, we all know what’s happened –

MR. PADDON: Right.

THE COMMISSIONER: – with regards to the cost and the schedule. And there may be various reasons for that that I don’t know about right at the moment. But you know, the fact is that it’s

doubled in cost, and whatever. So think about – if I was to be looking in the longer term, and almost look at it as you would’ve in your Auditor General role.

MR. PADDON: Mmm.

THE COMMISSIONER: Do you understand? It’s like what thoughts would you have with regards to how we might be able – you know, what level do I need to look at to make recommendations, if there are any to be made, with regards to ensuring this doesn’t happen again.

MR. PADDON: Well, if I get to Mr. Budden’s question, I mean, he’s asking, you know, was it a problem with, sort of, the political direction or – if you want to call it that – or the execution by the officials or something of that nature. And perhaps I can go at it this way, you know – maybe I’ll step back. You know, I’m really struggling with how to answer this, because I’m not quite – there’s no right answer, I don’t think.

THE COMMISSIONER: Do you want to take a couple of minutes just to think about it?

MR. PADDON: I’ll – no, no –

THE COMMISSIONER: We could take our break here?

MR. PADDON: – I’ll muddle through it –

THE COMMISSIONER: Oh, okay.

MR. PADDON: – now in a second.

THE COMMISSIONER: Okay.

MR. PADDON: Ultimately, what happened is the province’s electrical utility came to the province and said: Listen, we’re going to run out of power in a number of years, so we need to do something about it. Which was perfectly within their mandate. I mean, that was something that they should’ve done.

Now, the process around Muskrat Falls and, sort of, the information – that sort of thing – there was – whilst there was information flowing through officials, there was also information flowing, you know, at the political level as well.

And maybe there could’ve been some more barrier put there; I’m not sure whether that would’ve changed anything or not. But you know, it – sort of a – something that occurs to me. You know, I can’t say whether that was good, bad or indifferent but it was certainly a fact that that, sort of, informational structure existed.

You know, whether that was a fault with how the political side of things set things up – you know, perhaps. I’m not quite sure it’s – it was – is at the end of the day – was the key thing. You know, perhaps, you know, as it’s being suggested and talked about here, you know, an overreliance by perhaps both officials and the political element on the work that was done by Nalcor was, you know, it was – we wouldn’t be here today if things hadn’t – had occurred, as they said. But I think there was definitely a – certainly a reliance on the information and everything that was done by Nalcor.

And maybe, you know, that’s probably where things really, sort of, maybe fell off the rails or met – you know, had there been that sort of, I guess, maybe parallel process because of the significance of this that might’ve provided, sort of, initial comfort on the costing. You know, maybe that’s something that could’ve – but I, you know, I don’t – I’m not – I’m struggling with your question. I’m not sure if I get a few more minutes I’m gonna be able to answer it any better.

MR. BUDDEN: Yeah.

I guess it’s your – you’re here, and you have counsel because you have a reputational exposure here.

MR. PADDON: Right.

MR. BUDDEN: I guess – so I’m wondering is: If there were failures, were there failures of you and your fellow high-level civil servants, or were there failures in the people instructing you at the political level?

MR. PADDON: Yeah, well, the – I’m struggling with – when you say “instructing” because, yeah, there was no – there was nobody saying: Yeah, you go get that project done come hell or high water. It – so I – that’s the

impression I get when I hear the words that you're –

MR. BUDDEN: I meant –

MR. PADDON: – using.

MR. BUDDEN: – instructing in the broader sense –

MR. PADDON: Yeah (inaudible).

MR. BUDDEN: – politicians instruct. Yeah.

MR. PADDON: Right.

So, I mean, you know, at the end of the day, I mean, if there was failure at the bureaucratic and political level, I mean, it's probably a shared responsibility. But I wouldn't say it's one more than the other. I – it – nothing just strikes me, you know, that, you know, I can provide a, sort of, a definitive answer.

MR. BUDDEN: Okay, thank you.

That's it for me. Okay.

THE COMMISSIONER: All right.

We will take our break here now, and Edmund Martin will be next.

So we will just adjourn for 10 minutes.

CLERK: All rise.

Recess

CLERK: All rise.

Please be seated.

THE COMMISSIONER: All right. Edmund Martin?

MR. SMITH: Good afternoon, Mr. Paddon. Harold Smith, for Edmund Martin.

MR. PADDON: Hello.

MR. SMITH: Could I have P-00022, please?

00922, I'm sorry. 00922, sorry. I'm getting Ms. O'Brien's dropping the first number.

THE COMMISSIONER: That's tab 38.

MR. SMITH: Tab 38, Mr. Paddon.

MR. PADDON: Yup.

MR. SMITH: I'm looking at the title of this document: "Information Note; Department of Finance," and I know you said that this didn't come to your attention. You didn't actually see this until it was shown to you, et cetera, by the Commission counsel.

MR. PADDON: (Inaudible.)

MR. SMITH: And I'm looking at the title: "Economic Opinions on Development of Muskrat Falls," and then it says a "Review and analysis of opinions of economic experts David Vardy, Jim Feehan ... Wade Locke on the development of Muskrat Falls as the least-cost option for Nalcor to address" the "forecasted capacity shortfalls."

And if we scroll down very slowly. Okay. We'll see – keep going please – we see some background information.

That's okay, keep going. And a little further, please.

And then we see a summary of Mr. Vardy – commentary, I believe, Mr. Vardy's commentary, publicly, okay, as well as perhaps in correspondence to the government.

Continue, please, down.

And now we see Jim Feehan summary of his position. We've heard from both of those gentlemen so far. And if we keep going, we'll see Mr. Wade Locke's summary.

And keep going. And we get to "Conclusion."

Now, with respect, that – those conclusions somewhat mirror the statements of Mr. Locke, Mr. Feehan and – oh my –

UNIDENTIFIED MALE SPEAKER: Mr. Vardy.

MR. SMITH: Mr. Vardy.

MR. PADDON: Vardy.

MR. SMITH: Sorry, Mr. Vardy. And therefore don't appear to be conclusions of the Department of Finance but merely a summary of what these gentlemen are saying publicly. Is that a fair assessment from your read of it?

MR. PADDON: Perhaps.

MR. SMITH: Yeah. Any other thoughts?

MR. PADDON: I mean, this is not my –

MR. SMITH: No.

MR. PADDON: – piece of work.

MR. SMITH: No.

MR. PADDON: So I really can't offer any conclusive insight into the process.

MR. SMITH: But when you look at that document, and you see that each of the gentlemen are summarized and then the conclusion, it's not a conclusion of the department. It's a conclusion as to what they're saying. It's a conclusion of their position.

MR. PADDON: Well, you might call it a summary of their position.

MR. SMITH: A summary –

MR. PADDON: Yeah.

MR. SMITH: A summary of their position. Exactly.

MR. PADDON: To be clear, it wasn't a conclusion of the department.

MR. SMITH: It wasn't a –

MR. PADDON: Yeah.

MR. SMITH: Exactly. Now, I'm gonna transgress on dangerous soil here, because I don't know what your knowledge is of P1s and P50s and P75s. But you gave some indication that you were – you would be concerned if a P1

schedule, for example, was part of the documents and you weren't told. I think that's the way –

MR. PADDON: (Inaudible.)

MR. SMITH: – I heard you.

MR. PADDON: Yeah.

MR. SMITH: Okay. So do you know what, you know, the P-level means, P1 means?

MR. PADDON: Well, P stands for probability.

MR. SMITH: Yeah.

MR. PADDON: So it's – P1, I would assume, means there's a 1 per cent probability of something either occurring or not occurring.

MR. SMITH: All right. And what – or why are these probabilities determined? Why does someone go to the effort of saying, well, it's a P1 as opposed to a P12 or a P50 or a P75? Why do they do that, do you know?

MR. PADDON: They do it, I'm assuming, to provide a certain level of precision or comfort – or I don't know how you'd describe it – to the rest of us.

MR. SMITH: They're identifying, as I understand it, risks, are they not?

MR. PADDON: I would say –

MR. SMITH: The risks, the (inaudible) –

MR. PADDON: – that's the outcome, yeah.

MR. SMITH: Yeah.

MR. PADDON: Yeah.

MR. SMITH: So the risk is identified for – do you know what purpose the risk is identified?

MR. PADDON: So you have an understanding of sort of how robust, say, the estimates are or the schedule is or whatever it is, you know?

MR. SMITH: Would –

MR. PADDON: And how likely it is that you might not achieve what you say you're going to achieve.

MR. SMITH: Would it be possible to identify the risks so that you could manage them?

MR. PADDON: Are you asking me a question –

MR. SMITH: Yeah.

MR. PADDON: – or is that a statement?

MR. SMITH: Yeah. No, I'm asking you whether or not you identify risks so that you can manage them.

MR. PADDON: Well, obviously, yeah. I mean that's –

MR. SMITH: Okay.

MR. PADDON: – all part of the risk process, yeah.

MR. SMITH: Right. And in terms of schedule risks, okay, what kinds of things might go into a schedule risk?

MR. PADDON: Could be anything. It could be weather; it could be delivery delays; it could be issues with Aboriginal groups; it could be – there's a whole host of things that could happen.

MR. SMITH: Right. And the object of the person who is aware of these risks – or becomes aware of them – is to try and manage them so they don't create the excess costs that are associated with such risks.

MR. PADDON: Sounds reasonable, yeah.

MR. SMITH: Right. And would strategic risk involve that type of thing, too? Like, weather, weather windows and that type of thing?

MR. PADDON: I guess it would, yeah.

MR. SMITH: Yeah. So a P1 schedule might have an impact on strategic risk?

MR. PADDON: It may, yeah.

MR. SMITH: Yeah.

MR. PADDON: Yeah.

MR. SMITH: Now, were you aware that the sanction – or excuse me, the – I'll go back. When you look at the sources of information that describe P1 schedule risk at \$497 million in strategic risk, were you aware whether or not those assessments were done prior to sanction?

MR. PADDON: I don't (inaudible) –

MR. SMITH: You don't know?

MR. PADDON: No.

MR. SMITH: Is your source of information is essentially this Commission? Of 497 million and P1.

MR. PADDON: Yes.

MR. SMITH: Right? Okay.

Well, if a purpose of having these risks identified so they can be managed, do you have any idea of whether or not they were managed?

MR. PADDON: I don't know.

MR. SMITH: You don't know.

MR. PADDON: I wouldn't – I could offer an opinion, but I don't know –

MR. SMITH: Yeah.

MR. PADDON: – empirically.

MR. SMITH: Okay. Are you offering – would you offer an opinion based on hindsight, or would you offer an opinion –?

MR. PADDON: Based on hindsight.

MR. SMITH: Yes.

MR. PADDON: Yeah.

MR. SMITH: But not on terms of what you knew at the time?

MR. PADDON: Right.

MR. SMITH: Now, if you or government wasn't told of P1 schedule or 497 million in strategic risk – weren't told – is it possible that those risks had been managed by the time it got to sanction?

MR. PADDON: Possible.

MR. SMITH: Now, one – couple – a couple of other minor questions. But did your department accept the business case for the Muskrat Falls Project?

MR. PADDON: Essentially, yeah.

MR. SMITH: You did?

MR. PADDON: Yeah.

MR. SMITH: Having reviewed it?

MR. PADDON: Right.

MR. SMITH: Thank you. That's all the questions I have.

THE COMMISSIONER: Kathy Dunderdale?

MS. E. BEST: Good afternoon, Mr. Paddon. I'm Erin Best. I'm counsel for Kathy Dunderdale.

MR. PADDON: Yup.

MS. E. BEST: So it sounds like, from your testimony earlier today, that you and your department had a fair bit of interaction with Nalcor in regards to the project. Is that right?

MR. PADDON: Yes.

MS. E. BEST: More than you probably had with other Crown corp. projects?

MR. PADDON: I probably didn't have any interaction with other Crown corporation projects.

MS. E. BEST: Okay. And earlier today you were asked some questions about oversight. Wasn't the purpose of these interactions with – and meetings with Nalcor – wasn't part of that purpose oversight?

MR. PADDON: I guess in its broadest sense, sure it was. Oversight or liaison, I mean, you could perhaps say as much the same thing.

MS. E. BEST: Okay, thank you. And you described, I think, this morning going down to the States to meet with PIRA to allay your concerns regarding oil price forecasting.

MR. PADDON: Yeah.

MS. E. BEST: Wouldn't that be part of the oversight role as well?

MR. PADDON: Probably, yeah.

MS. E. BEST: Changing gears, I'd like to go to P-00043 please, Madam Clerk.

Thank you, and we discussed this document earlier today –

MR. PADDON: Yeah.

MS. E. BEST: – right? It's the Cabinet paper.

MR. PADDON: Right.

MS. E. BEST: And if we could scroll down please to this page, to the recommendation there. Okay.

So you see the recommendation there. We've already looked at it. And you didn't disagree with the recommendation, did you?

MR. PADDON: No, I didn't. You know, I knew that, you know, if you were going to get this project going and get it financed, this had to be done.

MS. E. BEST: Okay. And so I guess – I was gonna ask you why not, why didn't you disagree, but have you answered that?

MR. PADDON: I think so. You know, at the end of the day you know, if somebody's going to provide you with the amount of money that was being requested from the lending agencies, that they needed to have the assurance that this project was gonna get completed, that essentially the province was behind it.

MS. E. BEST: So without the benefit of hindsight, you agreed with this recommendation at the time?

MR. PADDON: At the time, yeah.

MS. E. BEST: Thank you.

Madam Clerk, if you could please call up P-00058.

Now, in your – sorry, in the document that we looked at this morning, P-00807, there was a recommendation with respect to an independent review. And so I wanted to show you this document, P-00058, which is the Manitoba Hydro International report dated October 2012. Now, this is after your time, I recognize.

Have you seen this document before?

MR. PADDON: No.

MS. E. BEST: You have not, okay.

Madam Clerk, if we could go to page, 9 please.

So if you could scroll down a little bit more, that ought to do it. Thank you.

That – I’m just gonna pick out a bit of the conclusion there, and you can see with respect to the Muskrat – so I’ll tell you first: MHI was retained by the government to review the inputs that went into the CPW, okay? And you can see here as part of their conclusion – I’m just gonna read it to you: “**Muskrat Falls Generating Station.** The cost estimates, construction schedules, and design work undertaken by Nalcor and its consultants were reviewed as part of the Decision Gate 3 process.”

And then they go on with their conclusion, which is: “The proposed schedule is appropriate and consistent with best utility practices. Based on the amount of engineering completed and on the number of tenders for which estimates have been provided by potential suppliers, MHI considers the Decision Gate 3 cost estimate to be an AACE Class 3 and thus would be considered reasonable for a Decision Gate 3 project sanction.”

Then, it talks about the transmission assets and –

MR. PADDON: Mmm.

MS. E. BEST: – above, the Strait of Belle Isle Crossing.

Is this the type of thing you would – you were thinking of when you were talking about an independent analysis?

MR. PADDON: Yes, in part. I think we were thinking it might be more than just – this appears to be just related to the costs.

MS. E. BEST: This was the inputs which included cost estimates that went into the CPW so –

MR. PADDON: Right. So –

MS. E. BEST: – the \$6.2 billion number.

MR. PADDON: – we were also thinking about, you know, issues like the oil price assumption, the markets for export electricity, those sorts of things, as well. But –

MS. E. BEST: Okay.

MR. PADDON: – this would have been a fairly critical component of it.

MS. E. BEST: Thank you. And actually, if we can scroll down, Madam Clerk, to the end of this section, please?

Just – yeah – okay, no, if you can keep going, yeah. Sorry. The – right here.

And in the middle of the page there, I believe it says: “Although beyond the scope the review, MHI also concluded that a planned new connection of Newfoundland’s power system to the North American grid is not only expected to improve reliability of the province’s system but also increase provincial power revenues, given that Muskrat Falls would generate more electricity than required by the province for the next two decades.”

Is that part of what you were talking about?

MR. PADDON: Yep. That would be a component of it, yeah.

MS. E. BEST: Thank you.

So I put to you that MHI did – or represented to the government, anyway, that they did a detailed review of the inputs including the capital cost estimates. And would that qualify, do you think, as oversight as well?

MR. PADDON: I think that would be a component of it, for sure. Yeah.

MS. E. BEST: Okay.

And throughout all of your many interactions with Nalcor, did you ever suspect that Nalcor was not being honest or forthright with their estimates?

MR. PADDON: No.

MS. E. BEST: Never?

I have to ask you about something that I think I heard you say when Mr. Budden was asking you a question there. I think you said something like: Perhaps if there had been a parallel process to review the cost estimates that Nalcor had produced. Do you recall saying something like that? You definitely said a parallel process.

MR. PADDON: Oh yes, I recall. Yeah.

MS. E. BEST: So I just want to figure out what you were talking about there, just to see if – when we bring it out in the open, if you think – if it's reasonable, if you – if that's really what you're talking about.

So are you talking about – because we know the Department of Finance didn't have the expertise to review, you know, the base cost estimates, because that comes – you need an engineer to do that, right? And, similarly, Natural Resources, for those base cost estimates, would be in the same boat.

So when you're talking about a parallel – so government had created Nalcor to do this work. Are you suggesting that government should have created Nalcor two to review Nalcor one?

MR. PADDON: Ms. Best, I was grasping at straws to kind of try to come up with an answer –

MS. E. BEST: Yeah.

MR. PADDON: – that was reasonable, but –

MS. E. BEST: That doesn't sound reasonable, though, does it?

MR. PADDON: Certainly not. You know, it sounds reasonable in retrospect, when you –

MS. E. BEST: Right.

MR. PADDON: – see everything that's gone on.

MS. E. BEST: Sure.

MR. PADDON: But, certainly, there was no suggestion at the time that we have this parallel process and I didn't think that way at the time. But the –

MS. E. BEST: And in fact –

MR. PADDON: – context of the question was – it was a retrospective question, really. You know, knowing that what we know now –

MS. E. BEST: Okay.

MR. PADDON: – I think the Commissioner sort of was wondering, you know, what sort of things could we look at.

MS. E. BEST: Okay. Fair enough, yeah.

I guess, for phase 1, I thought we were trying to stick with – stay away from the hindsight bias, but –

THE COMMISSIONER: Not totally.

MS. E. BEST: Okay.

THE COMMISSIONER: I mean, hindsight is – you know, I said in my interpretation decision – may as well straighten this out right now. I said in my interpretation decision, obviously, you can't look at it totally with hindsight but, obviously, you know, I can't – we can't, basically, exclude from our minds the fact that this project is well over budget and well over time and we're trying to figure out what happened.

MS. E. BEST: Mmm.

THE COMMISSIONER: Right?

MS. E. BEST: Yeah.

THE COMMISSIONER: So I mean I'm not sure if that's hindsight or not, but I'm sure it's more than hindsight that we're looking at.

MS. E. BEST: Yeah.

THE COMMISSIONER: Right?

MS. E. BEST: And I didn't mean to really comment on that, all I meant was I just want to distinguish if that was something that he thought of at the time, back then –

THE COMMISSIONER: Mm-hmm.

MR. PADDON: No.

MS. E. BEST: – or if this is just something you're saying now.

MR. PADDON: No, that was because I was put on the spot with the question, basically.

MS. E. BEST: Yeah, okay.

Okay, those are my questions.

THE COMMISSIONER: Okay.

MS. E. BEST: Thank you.

THE COMMISSIONER: Thank you.

Former Provincial Government Officials '03-'15?

MR. T. WILLIAMS: Good afternoon, Mr. Paddon.

MR. PADDON: Good afternoon, Sir.

MR. T. WILLIAMS: My name is Tom Williams; I represent a group of former elected government officials from the period of 2003 to 2015, with the exception of former Premier Dunderdale.

MR. PADDON: Right.

MR. T. WILLIAMS: So I just want to go back to some of the evidence that you gave earlier and I don't want to repeat it because time is sensitive, I know. And I think Mr. Simmons, in fairness, has covered off this and I think you've acknowledged – and correct me if I'm wrong in surmising what your evidence was – in that the Department of Finance did not play a role in terms of cost estimates, given the fact that historically they never did that.

MR. PADDON: That's correct.

MR. T. WILLIAMS: And they don't have the expertise to do that.

MR. PADDON: That's correct.

MR. T. WILLIAMS: So it had been an issue before the Commission that there's not a paper trail of an assessment of correspondence between government and Nalcor with respect to cost estimates, but I trust we wouldn't expect to see one, given the fact that you would never have undertaken that role.

MR. PADDON: That's correct.

MR. T. WILLIAMS: And, again, I think it's been brought out – correct me if I'm not wrong – that this is a similar pattern that has been done by the Department of Finance over time, over years that they never got involved in respect to cost estimates of various departmental projects.

MR. PADDON: That would've been done back at the department level, yes.

MR. T. WILLIAMS: And that would have been done at the department level.

MR. PADDON: Correct.

MR. T. WILLIAMS: And when we look at Nalcor, while I appreciate it's a Crown corporation, for the purposes of the development of the Muskrat Falls Project, did you see Nalcor as an extension of government?

MR. PADDON: To a –

MR. T. WILLIAMS: The –

MR. PADDON: – great extent, yes. Yeah.

MR. T. WILLIAMS: To a great extent.

MR. PADDON: Yeah.

MR. T. WILLIAMS: And that frequently, as we've seen evidence, that Nalcor and government officials – whether it be Natural Resources or Finance or other departments – worked hand in hand at various times in moving the project forward.

MR. PADDON: That's correct.

MR. T. WILLIAMS: And that being that, obviously, the sole shareholder of Nalcor is the Government of Newfoundland.

MR. PADDON: That's correct, yeah.

MR. T. WILLIAMS: Okay.

So would you agree with me or would you think it would be reasonable that government would rely on cost estimates that would be put forth by Nalcor. Not only that they're done by Nalcor themselves, but we have evidence – we had Mr. Paul Lemay on from SNC-Lavalin who, in fact, had a team assembled to do cost estimates over a seven-month period.

We've had evidence and we'll hear further evidence that there's consultants retained by Nalcor, Westney, regarding risk assessment. So Nalcor had formulated outside expertise as well in doing these. So do you feel it's reasonable for government to have relied on this information that came forth from Nalcor?

MR. PADDON: I think it was reasonable at the time, for sure, to rely on them. They had the expertise and they knew the business and those sorts of things. Having said that, you know, the fact remains that we still did make a recommendation that perhaps there should be an independent review. And I – you know, a lot of our thought process was, you know, all these sort of reviews that had been done were all commissioned by Nalcor –

MR. T. WILLIAMS: Right.

MR. PADDON: – so, you know, as part of sort of a final process before going to sanction,

something that the province has commissioned just to take a look at it.

MR. T. WILLIAMS: Okay, so –

MR. PADDON: But that's not to say that we didn't – that there was still the reliance on Nalcor –

MR. T. WILLIAMS: Sure.

MR. PADDON: – to provide the estimates of cost and other inputs into the decision.

MR. T. WILLIAMS: And you indicated in your direct evidence that you had no reason to believe that the numbers put forward by Nalcor would not be accurate. Is that correct?

MR. PADDON: That's right.

MR. T. WILLIAMS: And you would have no reason to believe, I would suggest, that any elected government officials would have any reason to doubt that the numbers being put forth –

MR. PADDON: I wouldn't think so, no.

MR. T. WILLIAMS: So then when we speak of having independent reviews – and I guess I can probably try to combine two questions here at one time. When we look at the letter of commitment that came out in 2011 –

MR. PADDON: Right.

MR. T. WILLIAMS: – and that's been described as an open cheque, a blank cheque.

MR. PADDON: A blank cheque.

MR. T. WILLIAMS: That letter of commitment at that time was not actionable, meaning that there's nobody going to draw on that letter of commitment because the project had not even been sanctioned at that point. Is that correct?

MR. PADDON: That's correct. Yeah.

MR. T. WILLIAMS: So that letter of commitment in 2011, while being described as

an open blank cheque, wasn't even actionable until the project was in fact sanctioned. Correct?

MR. PADDON: That's correct.

MR. T. WILLIAMS: And before sanctioned it had to pass through the DG3 process.

MR. PADDON: That's correct.

MR. T. WILLIAMS: And part of that DG3 process also involved an additional assessment by MHI who were looking at cost estimates, and also went through a process with the – subsequently went through a process with the federal government through – with Canada, whereby they hired their own engineer who did the complete assessment with respect to this project.

MR. PADDON: It's my understanding. Yeah.

MR. T. WILLIAMS: Okay.

So before this letter of commitment, this blank cheque that we were talking about, could ever be actionable, the project had gone through all those other levels of review.

MR. PADDON: That's right.

MR. T. WILLIAMS: Okay.

And, in fact, the review by the Government of Canada was so thorough that the financiers of the project, being the financial institutions, relied upon the government's guarantee for their security as well.

MR. PADDON: I can't answer that question because –

MR. T. WILLIAMS: Okay.

MR. PADDON: – I just don't know.

MR. T. WILLIAMS: Okay.

Well, we had from Mr. Sturge that the individual chartered banks would not go out and do complete, thorough independent reviews because they felt if they could rely on the government's guarantee, then they were safe.

MR. PADDON: Yeah, that's fair enough.

MR. T. WILLIAMS: That would be a natural assessment.

MR. PADDON: Fair enough.

MR. T. WILLIAMS: And he did give evidence to the fact that in order for government to do that, the government – I mean Government of Canada to do that – they had to have a thorough, detailed review which they completed and were satisfied at the time they granted the guarantee.

MR. PADDON: Right.

MR. T. WILLIAMS: Okay.

Okay, I think that's all the questions I have.

Thank you.

MR. PADDON: Thank you.

THE COMMISSIONER: Thank you, Mr. Williams.

Julia Mullaley. Charles Bown?

MR. FITZGERALD: Good day, Mr. Paddon. My name is Andy Fitzgerald and I represent Charles Bown and Julia Mullaley.

MR. PADDON: Yeah.

MR. FITZGERALD: How are you?

MR. PADDON: Not too bad. How are you?

MR. FITZGERALD: Fine, thank you.

Just a few questions here: How long have you been in the – I know you're retired now, but how long were you in civil service?

MR. PADDON: Twenty-seven, 28 years, somewhere in that range, since 1990.

MR. FITZGERALD: Does that include your time as Auditor General or is it 27-28 in core government, then Auditor General.

MR. PADDON: No, no, it was 20 years in core – 21 years in core government and 5½ years or so as AG.

MR. FITZGERALD: Okay.

MR. PADDON: Twenty-seven years in total.

MR. FITZGERALD: And I guess as AG you'd have an awful lot of familiarity with all government departments and Crown agencies on some level.

MR. PADDON: That's right.

MR. FITZGERALD: And how they would operate.

MR. PADDON: That's right.

MR. FITZGERALD: And how they would function.

MR. PADDON: Pretty well, yeah.

MR. FITZGERALD: Yeah, you would go do a report if there's –

MR. PADDON: Yeah.

MR. FITZGERALD: You'd make your findings based on their operations and –

MR. PADDON: That's right.

MR. FITZGERALD: – financially, in any event.

MR. PADDON: Yeah.

MR. FITZGERALD: When Mr. Skinner gave evidence he indicated that, in terms of respect to Mr. Bown, that a deputy minister would provide advice, options and information to a minister. Would you generally agree with that characterization?

MR. PADDON: Generally, yeah.

MR. FITZGERALD: I'd like to direct the witness to P-00005, please.

It's our timeline. I just want to put some of the evidence in context.

If we could scroll down, please, to page 2, maybe page 3. Keep going, please.

Okay, thank you.

Now, in giving your evidence you indicated that there's been a lot of talk here about the numbers from Nalcor, and should have been another review and whatnot and I'm going to take you through some of that. But one of your answers you indicated that you had some level of comfort because SNC-Lavalin was retained as the EPCM contractor. Do you recall mentioning that?

MR. PADDON: Yes.

MR. FITZGERALD: And if we look at this exhibit, that was February 1, 2011, Nalcor Energy awards an EPCM contract to SNC-Lavalin Inc. So it's the timeline.

MR. PADDON: Okay.

MR. FITZGERALD: The next exhibit is P-00807.

THE COMMISSIONER: Tab 39, tab 39.

MR. FITZGERALD: Oh, sorry, Mr. –

MR. PADDON: (Inaudible.)

Yeah.

MR. FITZGERALD: And if we – this was the note dated May 9, 2011 –

MR. PADDON: Yeah.

MR. FITZGERALD: – where you recommended the independent review, you and Mr. Bown.

MR. PADDON: That's right.

MR. FITZGERALD: So from February 2011 you had a level of comfort with SNC-Lavalin being retained as the EPCM contractor. And despite that level of comfort, you and Mr. Bown decided to take that extra step and recommend that an independent review occur.

MR. PADDON: That's right.

MR. FITZGERALD: So you went over and above the level of comfort that you did have and tried to go further and recommend more to your officials?

MR. PADDON: I guess, yes, yeah.

MR. FITZGERALD: And I note that this was dated May 9, 2011. I don't work in government but I would suggest to you that this document didn't – was not drafted overnight.

MR. PADDON: I would suggest you're right.

MR. FITZGERALD: How long, roughly, would it take, generally, to get a note like that prepared?

MR. PADDON: Something like this I would say would have been maybe a week or two.

MR. FITZGERALD: Okay.

And I would also suggest to you that it was not you and Mr. Bown sitting down over a cup of coffee drafting this, that your officials in your departments were also involved.

MR. PADDON: That would be a fair assumption, yeah.

MR. FITZGERALD: So it would be input from the departments, then you and Mr. Bown would review it and take it to your ministers.

MR. PADDON: That's right.

MR. FITZGERALD: The background, if we just scroll down a little bit in this exhibit, page 2 – sorry, that's good.

Bullet two: "Project size and related financial requirements are significant relative to the capacity of the Province. Given the combined Nalcor and Provincial commitment of \$4.4 billion, development of the MFP will add substantially to Provincial debt and could possibly impact future borrowing capacity for other uses. For this reason alone, it is prudent for the Province have a clear and independent review of project risks and their potential consequences."

So at that point in time, you and Mr. Bown were recognizing the seriousness of this issue and were recommending further action by government.

MR. PADDON: Yes. Seriousness – certainly we recognized the size of the project and its significance to the province.

MR. FITZGERALD: And potential consequences as the note says.

MR. PADDON: Absolutely. Oh yeah.

MR. FITZGERALD: Yeah.

MR. PADDON: Yeah.

MR. FITZGERALD: Okay, if we could just go to the following page, please, under – keep going. Not process.

Thank you, no, back up please. Page 3 at the bottom. No, page 3. Thank you.

So, ultimately, in order to move the initiative forward, you also recommended to your ministers Ernst & Young, KPMG and possibly Grant Thornton as potential candidates for doing such a review.

MR. PADDON: That's right.

MR. FITZGERALD: And I believe in your response to Ms. Best, it wasn't just an MHI-type review, you wanted a bit more in depth, you were thinking about fuel prices and other things.

MR. PADDON: I think so, yeah. Yeah, because that's sort of the things that were outlined in the scope just – well, yeah, design engineering risk, construction risk, generation technical risk, market risk, financial risk, contractual risk. So all those things we were looking at.

MR. FITZGERALD: So all these risks were brought forward by you and Mr. Bown in May of 2011 –

MR. PADDON: That's right.

MR. FITZGERALD: – in the form of this note.

MR. PADDON: Right.

MR. FITZGERALD: It was signed by both ministers, if we can go to the last page.

MR. PADDON: Correct.

MR. FITZGERALD: Minister Marshall and Minister Skinner.

MR. PADDON: Skinner, yeah.

MR. FITZGERALD: Yeah.

Would that be an indication that those ministers were receptive to your recommendation?

MR. PADDON: They wouldn't sign it if they didn't agree with it.

MR. FITZGERALD: So on the ministerial level at least, you did have some support.

MR. PADDON: That's right.

MR. FITZGERALD: And I don't believe you know what the outcome of this recommendation was, do you?

MR. PADDON: Not directly, no. I don't know if the Manitoba Hydro review was considered to be this. I have no – I just don't know.

MR. FITZGERALD: Would you agree with me as deputy ministers conducting your due diligence, you took this issue as far as you could at the time?

MR. PADDON: At the time I think we did, yeah.

MR. FITZGERALD: If you disagreed with the decision of Cabinet, what was the result for you or Mr. Bown?

MR. PADDON: Well, we provided our input before the Cabinet decision, not – you know, once Cabinet's made a decision, essentially officials will carry out the directive of Cabinet.

MR. FITZGERALD: Yes, and you'll – you're the employees and they're the employer.

MR. PADDON: Essentially, yeah.

MR. FITZGERALD: Yes.

Now, there's been a lot of talk here with respect to oversight – and I know we're going to get into that a bit more in phase 2, but any idea – we recognize that you didn't – you did not have the resources with respect to risk and P-values in core government to do that type of analysis.

MR. PADDON: You know, somebody perhaps in the Department of Transportation and Works might have more of a passing understanding of the P-values, but certainly not people in our department or my department.

MR. FITZGERALD: A passing understanding is a – you know, is a significant coin of phrase because I would suggest that if you're doing a multi-million dollar megaproject you would want expertise. You wouldn't want a passing understanding if you're going to commit that type of money.

MR. PADDON: That'd be a fair statement, yeah.

MR. FITZGERALD: Any idea on how big the Department of Finance would have to be to expand to bring in that type of expertise?

MR. PADDON: Well, it's a question – you know, that's – I have no idea. You know, it's – I don't know how much expertise. Would you hire it just for the one-off project or do you embed it permanently, you know? So it is a (inaudible).

MR. FITZGERALD: But –

MR. PADDON: But if you had engaged a one-off, you know, I would say it is multi-millions dollars for sure.

MR. FITZGERALD: Yeah.

And if you did bring these employees into core government, you'd have other types of liabilities, like pensions and whatnot, wouldn't you?

MR. PADDON: Oh yeah, absolutely.

MR. FITZGERALD: Yeah, so there would be a significant cost –

MR. PADDON: (Inaudible.)

MR. FITZGERALD: – if you wanted to expand an oversight arm of government.

MR. PADDON: That's right.

MR. FITZGERALD: Generally speaking, in your role as Auditor General, when you're reviewing different departments of government and Crown corporations – and correct me if I'm wrong – more often than not, are you able to rely upon the information that's provided to you? In that role?

MR. PADDON: From the departments?

MR. FITZGERALD: Yeah.

MR. PADDON: Depends on the nature of the information, but generally yes.

MR. FITZGERALD: Yeah. Generally, public servants and civil servants are doing their job according to law and then try to do the best.

MR. PADDON: Generally speaking.

MR. FITZGERALD: Your experience?

MR. PADDON: Yeah. Always be improvements but –

MR. FITZGERALD: Oh yes, absolutely.

MR. PADDON: (Inaudible), yup.

MR. FITZGERALD: And you've been in government 26, 27 years. It's generally quite common for governments to bring in external expertise in numerous areas isn't it?

MR. PADDON: Happens quite frequently, yeah.

MR. FITZGERALD: It can happen in construction?

MR. PADDON: Yeah.

MR. FITZGERALD: Law?

MR. PADDON: Anything, yeah.

MR. FITZGERALD: Economics?

MR. PADDON: Anything.

MR. FITZGERALD: Thank you for your time.

MR. PADDON: Thank you.

THE COMMISSIONER: Right. Robert Thompson?

MR. COFFEY: No questions.

THE COMMISSIONER: Consumer Advocate?

MR. HOGAN: Mr. Paddon, my name is John Hogan. I'm counsel for the Consumer Advocate. The Consumer Advocate represents the ratepayers. So my first question is actually going to be directly related to the ratepayers and ask you what discussions took place generally about the effects this project would have on the ratepayers?

MR. PADDON: There was a fair amount of discussion and it all revolved around, I guess, where rates were expected to go absent what – Muskrat Falls. What the demand profile was likely to be for electricity over the next number of years, and what then ultimately would be the – where rates would be, either before Muskrat Falls and then with Muskrat Falls on stream.

MR. HOGAN: So is there or discussion or analysis about what the ratepayer could afford with regards to the final cost of this project?

MR. PADDON: I – probably not, in what the ratepayer could afford. I don't think it would have been framed that way.

MR. HOGAN: That sort of goes to a few of my questions. We talked about a blank cheque, and you know, government's on the hook for this regardless, and there doesn't seem to be any analysis about whether, you know, this project was going to go 1 or 2 or 3 or \$4 billion over. So where – was there any analysis done with regards to that, to say listen, I mean, we can afford this project with what Nalcor is telling us and what Natural Resources says is okay.

MR. PADDON: Mmm.

MR. HOGAN: We're worried about cost overruns. But where's the line? Was that ever talked about?

MR. PADDON: I don't recall that, no.

MR. HOGAN: Okay. I think – I read through former Premier Tom Marshall's transcript and I think his evidence is going to be – he said in his transcript anyway – that he was very – that he always wanted to know the number.

MR. PADDON: Right.

MR. HOGAN: And I think what he's referring to when he says the number is the number that government has to borrow or provide to Nalcor to fund the project.

MR. PADDON: Right.

MR. HOGAN: Was he ever concerned with anything beyond that number? Because that still matters to the ratepayer.

MR. PADDON: He – I think it's fair to say that he was concerned about what the price of electricity was going to be at the end of the day when this project came on stream. That was something that he sort of talked about fairly often. And that's one of the things that – we wanted to get Ed Martin in at that point in time to do a briefing with the ministers to talk about those sorts of things.

MR. HOGAN: They were talked about, but there was no analysis done about what the government could handle and/or what the ratepayer could handle in an extreme case.

MR. PADDON: No.

MR. HOGAN: That wasn't done.

MR. PADDON: Not an extreme case, no.

MR. HOGAN: So, I'm gonna jump around here a little bit on my questions – and throughout your transcript, and a couple times today, you referred to comfort level. You know, this – you're the Department of Finance – you've heard of evidence-based decision-making? Yes?

MR. PADDON: Mm-hmm.

MR. HOGAN: So what does that mean to you?

MR. PADDON: That you have evidence to make your decision.

MR. HOGAN: So – comfort level is not evidence. Do you agree?

MR. PADDON: Well, comfort is a component of it, I guess.

MR. HOGAN: Okay.

MR. PADDON: Yeah.

MR. HOGAN: Well, Department of Finance – I would think numbers matter more than feelings.

MR. PADDON: Right.

MR. HOGAN: Is that fair to say?

MR. PADDON: That's fair to say, yeah.

MR. HOGAN: Well, why wasn't that analysis done? I really struggle with this. To sit around the Department of Finance – high members, Cabinet members, premiers, CEOs of Nalcor talking about comfort levels – about how much debt we can afford, and how much the ratepayer can handle, and rather than do an analysis, we talk about comfort levels. Do you see a problem with that?

MR. PADDON: The comfort level we're talking about – the business case that Nalcor – I think the comfort level I talked about was comfort with the cost that Nalcor (inaudible).

MR. HOGAN: Okay, so cost but not the necessary (inaudible) – not the overruns that may occur.

MR. PADDON: Right.

MR. HOGAN: Okay.

So that leads me to another question. What – people keep throwing out the term business case. What comprises the business case?

MR. PADDON: The business case would – well, there's a number of components to it. One is obviously the revenue and then the other side

is the cost, so the capital cost and the operating cost.

MR. HOGAN: That's where I get confused, 'cause the revenue doesn't really matter, because the consumer is paying for it all. So where does it – it's just circular.

MR. PADDON: Right.

Well, it – ultimately, the ratepayer is paying for it; there's absolutely no doubt. So you start off with your capital cost, and generally, how much money do you need from the ratepayers to be able to deal with those costs? And that drives your decision-making.

MR. HOGAN: So, again – so what is the base – what is the business case?

MR. PADDON: The business case – basically, the business case came that, essentially, we're gonna run out of power, so we need a new source of power over the next number of years, and here are our options. So you look at, you know the, sort of, the least-cost alternative assessment, and obviously – in this case the Muskrat option – Interconnected Option became the lowest price, or the least cost.

MR. HOGAN: Right.

MR. PADDON: So, all the information that was available around that was part of the business case.

MR. HOGAN: But there's no end to that, though, right? That's my point. It doesn't really matter what the cost is because you didn't do that analysis.

MR. PADDON: It doesn't matter – well, I mean the analysis that was provided was that, you know, you – there was an expectation that electricity rates over the next number of years were going to increase to – I can't remember the amount now – 16 or 17 cents a kilowatt hour. And that, once Muskrat Falls comes on stream – so the ratepayers essentially were going to be paying that anyway, if you accepted the demand forecast and all that sort of thing.

Once Muskrat Falls comes on stream, now you've got a – it was intended that the price of

electricity would be roughly about where the price was going to be anyway – I think there might have been a small blip somewhere along the way. But then you provide the stable power from there on in.

MR. HOGAN: There could have been a way to look at – you were asked – if you looked at other megaprojects. I mean, I'm just thinking of someone who renovates a house. I renovated my house and I asked around – what can I expect? Why didn't you do that analysis to say – what are other hydro megaprojects going over budget by, and build that into the business case as an expectation? Why wasn't that done?

MR. PADDON: Don't know.

MR. HOGAN: You don't know. Okay. It wasn't discussed.

MR. PADDON: I don't recall it. No.

MR. HOGAN: Do you think a blank cheque method is a smart way to finance a project?

MR. PADDON: I – it's not a blank cheque method. I mean, essentially, if you're going to run it – once you start a project you've got to be committed to it. And government was committed to it.

MR. HOGAN: You don't commit to a project with a blank cheque is my point.

MR. PADDON: Well, essentially you do.

MR. HOGAN: Okay. And that was what government did – committed to a project with a blank cheque.

MR. PADDON: Government committed that they were going to get the project done.

MR. HOGAN: Without knowing what the worst-case scenario would be. Without analyzing what the worst-case scenario could be.

MR. PADDON: You don't know what the worst-case scenario is going to be –

MR. HOGAN: You certainly didn't. That's pretty clear. Right?

If I could just look at P-00913 please?

THE COMMISSIONER: Tab 24.

MR. HOGAN: I think you were asked about this today – that Minister Marshall – and I think you just mentioned it to me – wanted a meeting with someone in Resources to get up to speed.

MR. PADDON: What he wanted was somebody from Nalcor really.

MR. HOGAN: Okay. And this is June, 2011. I'm just wondering – it seems a bit late in the game for the Minister of Finance to try to get up to speed on this. Is there a reason –?

MR. PADDON: No.

MR. HOGAN: – this was –

MR. PADDON: This was not the first time he would have been exposed to things. It was just –

MR. HOGAN: Okay.

MR. PADDON: This was coming out of –I guess – specific questions that were coming up in the House of Assembly.

MR. HOGAN: And you – we'll just scroll through it to give you context. You don't know what those specific questions were at this point in time?

MR. PADDON: No idea. No. My recollection is, is that they were likely around the price of electricity.

MR. HOGAN: Well this is your email. Maybe it'll jog your memory. "Hi folks Minister Marshall is continually asking questions regarding the MF arrangement." June 9, 2011.

"It would be extremely useful if someone could come in for an hour or two and run through the guts of the arrangement and answer his questions (which generally stem from the questions Yvonne" – Jones – "asks – cheap power for NS, doubling of rates here etc)."

MR. PADDON: Yeah, because those were the type of things that were coming up in the Legislature at the time.

MR. HOGAN: Okay.

If we can just look at that Information Note again which is P-00922 and it is at tab 38. We can look at the last – the second-last page, page 5. Just the end of the page.

So I just want to read this out because I think this is important: "To ensure government is fully insulated from criticism and, more importantly, is absolved of any responsibility (to the extent that all current information allows) for potentially saddling the people of Newfoundland and Labrador with a massive unnecessary debt burden, government should delay a decision on Muskrat Falls for 1-2 years to allow a full assessment of alternatives and a complete analysis of the potential burden to taxpayers if development of Muskrat Falls has substantial cost overruns."

That's a mouthful; I think a lot of key words in there. And your evidence was that you hadn't seen this.

MR. PADDON: That's right.

MR. HOGAN: My question is: So these – are these junior Finance staff or who are these people?

MR. PADDON: I don't know what the position of Mr. Tymchak was, I don't know who M. O'Reilly is and Ken Hicks was a manager, I think.

MR. HOGAN: Are they – what level would they be? Like, where are they reporting to?

MR. PADDON: There would be a director, then an assistant deputy minister above that.

MR. HOGAN: And then the ADM –

MR. PADDON: Then to me.

MR. HOGAN: – reports to you.

MR. PADDON: Yeah.

MR. HOGAN: Okay.

So my question is, I find it strange that these lower level people are asking the questions this

late. Why wasn't this question asked by you or the minister?

MR. PADDON: I can't answer your question.

MS. E. BEST: Hold on a sec, Commissioner. I mean – is it these low-level people asking these questions or is this, as Mr. Smith pointed out, a summary of what he and Vardy (inaudible).

MR. HOGAN: Okay.

THE COMMISSIONER: Well, I guess that's a matter of trying to decide exactly what is being said here because I'm not sure –

MR. HOGAN: I was going to actually get to that, Commissioner, if you don't mind.

THE COMMISSIONER: Okay, go ahead.

MR. HOGAN: And then – okay? So when Mr. Smith pointed out that this – if you look through it, there's a title and there's an issue and there's a background and there's a current status. There's the Wade Locke summary – sorry, there's David Vardy's summary, there's Jim Feehan's summary, there's Wade Locke's summary and then there's a conclusion.

Now, this is an Information Note. So can you tell us what an information note is, generally, you know, for government?

MR. PADDON: Well, you know, there's, I guess, a couple different types of notes. One would be a decision note like we saw –

MR. HOGAN: We saw –

MR. PADDON: – earlier.

MR. HOGAN: – yeah.

MR. PADDON: Where you're actually asking somebody to make a decision. The other is just you put stuff on paper and say you might find this of interest, here you go.

MR. HOGAN: So, obviously, I would submit that this is sort of background information which leads to a conclusion, and we see it there: conclusion. So whose conclusion would that be?

MR. PADDON: I don't know. I didn't write the notes.

MR. HOGAN: You don't know.

MR. PADDON: I can't answer your question.

MR. HOGAN: Okay.

Is this normal standard form for an information note, to sort of give background and then to make a conclusion?

MR. PADDON: I have no idea.

MR. HOGAN: Would there be any point –

MR. PADDON: Well –

MR. HOGAN: – of writing an information note without a conclusion in it?

MR. PADDON: No, no it wouldn't necessarily have a conclusion if it was just an information note, I guess, yeah.

MR. HOGAN: Okay, but if it has a conclusion, normally, what does that mean?

MR. PADDON: Usually you're trying to – you've got something that you want to impart, I guess.

MR. HOGAN: Government concludes X, Y, Z – for your information?

MR. PADDON: Or somebody concludes, yes.

MR. HOGAN: Somebody concludes, okay.

In your role as attorney – Auditor General, do you have the ability to audit Nalcor?

MR. PADDON: Yes.

MR. HOGAN: You do?

Have you thought about doing that since your role as Auditor General?

MR. PADDON: Well, I'm not Auditor General anymore, but –

MR. HOGAN: When you were, sorry.

MR. PADDON: Yeah, we actually did start a project a year or two before I left –

MR. HOGAN: Okay. So that provide –

MR. PADDON: – probably a year before.

MR. HOGAN: – that would provide a level of oversight to government.

MR. PADDON: It would, but it was very specific in its scope. I mean, it wasn't an audit of Muskrat Falls for argument sake.

MR. HOGAN: No.

MR. PADDON: Yeah.

MR. HOGAN: But if the government of the day chose to do that audit, it can? It has legislative authority, as far as you know?

MR. PADDON: Yeah, there's two types if audits. One is –

MR. HOGAN: Okay.

MR. PADDON: – the audit of the financial statements, which, I think, Deloitte or somebody of that nature does the audit; and the other is, say, performance audits looking at the spending the money and processes and those sorts of things, and that's the role of the Auditor General.

MR. HOGAN: Is this over and above looking at Nalcor's own audit?

MR. PADDON: Well, we would look at the – we would look at the financial statement of – audit of Nalcor –

MR. HOGAN: Right.

MR. PADDON: – just to ensure that their auditor has done the appropriate procedures to support the opinion.

MR. HOGAN: Right, but then can you do your own audit yourself, if you choose to?

MR. PADDON: A financial statement audit or –

MR. HOGAN: An audit.

MR. PADDON: An audit – well, there's –

MR. HOGAN: I know there's different levels.

MR. PADDON: – two types.

MR. HOGAN: So the highest level of audit, what is that called?

MR. PADDON: So, the – there's not a higher or lower level, it's just two types. So every year, Nalcor has their financial statements audited by and independent firm of accountants to express an opinion whether they present fairly the financial position of the company. So I don't do that. I could.

MR. HOGAN: That's my question. You could?

MR. PADDON: I could.

MR. HOGAN: And you have the authority – you had the authority to do that?

MR. PADDON: No, I don't have the authority because that's a decision of the board of directors of Nalcor who they get to audit the financial statements. And they haven't – they've asked somebody else to do that.

MR. HOGAN: Okay.

MR. PADDON: The Auditor General can go in as he or she sees fit and look at the processes in specific areas and certain projects. And there was – and I believe it's still under way, so ...

MR. HOGAN: Okay, but to do one from scratch as the Auditor General, just to sort of talk in layman's terms, do – does the Auditor General have the authority to do that?

MR. PADDON: Sure. Yes.

MR. HOGAN: Under what legislative authority does that exist?

MR. PADDON: It's under the *Auditor General Act*.

MR. HOGAN: Okay.

And we talked a little bit about that information which you didn't see, and the other recommendation which wasn't – may or may not have been followed, depending on what we think – what is the opinion on the MHI report.

MR. PADDON: (Inaudible) yeah.

MR. HOGAN: Okay.

Is there any possibility that there – that the government was not functioning properly at that point in time for that Information Note to, say, maybe not get passed up the line or for the recommendation? And I'm asking from your memory and your experience working (inaudible).

MR. PADDON: No, I wouldn't say. No.

MR. HOGAN: Okay.

There was a turnover in government at one point in time, from Williams to – Premier Williams to Premier Dunderdale. Do you recall that causing any issues with regards to turnover or change in administration?

MR. PADDON: No.

MR. HOGAN: No problems?

MR. PADDON: No. Much of the same people were there.

MR. HOGAN: Okay.

MR. PADDON: So, yeah, it wasn't – it was fairly seamless.

MR. HOGAN: We heard some evidence from Derrick Sturge about dividends. Do you – did you listen to Mr. Sturge's evidence?

MR. PADDON: Not all of it, some of it.

MR. HOGAN: Okay, so his evidence was that at some point in time Nalcor requested that they stop paying dividends to the government.

MR. PADDON: That was quite a long time ago, yeah.

MR. HOGAN: Were you involved in that at all?

MR. PADDON: I was, I believe, yeah.

MR. HOGAN: And what's your recollection of that and why it was done?

MR. PADDON: They wanted to get their debt-equity ratio to a level that would be consistent, say, with other public – or other electrical utilities.

MR. HOGAN: Okay.

MR. PADDON: So, traditionally, they'd been paying the lion's share of their dividends over to government every year and they wanted to stop that until such time that they could get their debt-equity levels in line.

MR. HOGAN: So that was stopped and then at some point money started to flow the other way. Is that correct?

MR. PADDON: Well, it did, because Nalcor was involved in the oil and gas business and, you know, those sorts of things.

MR. HOGAN: And do you know – do you have any other recollection about the dividends being the same value as recall power? Was that sort of –

UNIDENTIFIED MALE SPEAKER:
(Inaudible.)

MR. HOGAN: Okay.

You said today you were happy with what was presented to the PUB, which is choice between two options. Do you recall saying that?

MR. PADDON: Saying that, no.

MR. HOGAN: Okay, well, were you happy – can you think back to the fact that the PUB was given two options, whereas Mr. Learmonth put to you, Nova Scotia was given a much broader –

MR. PADDON: Yeah, okay, I remember it.

MR. HOGAN: – question.

MR. PADDON: Yes, I do remember now. Yeah.

MR. HOGAN: As a member of the Department of Finance who, I hope, are watching the dollars, the best way to get the least-cost option would have been to look at as many options as possible. Is that fair to say?

MR. PADDON: Yes. Probably would, yeah, (inaudible).

MR. HOGAN: Was there any discussion or concern within the Department of Finance to do – to present a broader question to the PUB?

MR. PADDON: Not at that time, no.

MR. HOGAN: Okay.

Talked about the credit rating meetings in Toronto.

MR. PADDON: Right.

MR. HOGAN: I think you said you went to one. Is that right?

MR. PADDON: That's right.

MR. HOGAN: Who was at that meeting? Don't recall?

MR. PADDON: There was quite a number of people from Nalcor; would've been led by Derrick. I think Jim Meaney might have been there.

MR. HOGAN: Who's that?

MR. PADDON: Jim Meaney was there.

MR. HOGAN: Jim Meaney.

MR. PADDON: Lance Clarke, Paul Harrington and there were others, I just can't remember. Plus –

MR. HOGAN: What about from government, can you remember?

MR. PADDON: Charles. Just Charles.

MR. HOGAN: Just Charles.

MR. PADDON: Yeah.

MR. HOGAN: No minister?

MR. PADDON: No.

MR. HOGAN: Okay. And what about this meeting at – was it one meeting at PIRA?

MR. PADDON: PIRA.

MR. HOGAN: PIRA, sorry.

MR. PADDON: Yeah.

MR. HOGAN: You went to that as well?

MR. PADDON: I did, yeah.

MR. HOGAN: And who was at that?

MR. PADDON: There was Minister Marshall and Minister Kennedy.

MR. HOGAN: That would be Finance and Natural Resources at the time?

MR. PADDON: Yes, Finance and Natural Resources. There likely would have been some officials there from Natural Resources, I just can't recall. Could be Charles. I just –

MR. HOGAN: Okay.

MR. PADDON: – I don't recall. And I can't recall if there was somebody there from Nalcor or not.

MR. HOGAN: Okay.

My last question is with regard to the forecasts, the 50-year forecast, I'm sure you've heard a lot about this, what was the feeling or your thoughts in the Department of Finance regarding these long-term forecasts for the project?

MR. PADDON: In what regard? I'm not quite sure I –

MR. HOGAN: I would submit – and other people have submitted – that it's unreliable to rely on 50-year forecasts when you're trying to figure out the value of these projects.

MR. PADDON: Well, certainly, the longer your forecast period the less reliable it is or the less

precision there is with it. The more subject it is to changes. I mean that's logic. That's logical.

MR. HOGAN: So was there any pushback from the Department of Finance about that to say –

MR. PADDON: No, at the end of the day, I mean, you still wanted to have – you were gonna finance it over a fairly long period of time so, I mean you had to make your best guess or best assumption as to what –

MR. HOGAN: Was there any suggestion from the Department of Finance that maybe we shouldn't do a 50-year domestic project because that risk with forecast is in existence?

MR. PADDON: No.

MR. HOGAN: That never came up?

MR. PADDON: I don't recall.

MR. HOGAN: Never suggested?

MR. PADDON: No.

MR. HOGAN: And you never heard that from Natural Resources or anyone else within the government?

MR. PADDON: I don't recall that, no.

MR. HOGAN: Thank you very much.

MR. PADDON: You're welcome.

THE COMMISSIONER: Okay.

So it's now just past 4:30. I'm just trying to get a bit of the lay of the land. So who's left?

Is Emera Inc. – no questions? Okay.

Former Nalcor Board Members? Okay.

So Ms. – Todd Stanley, Terry Paddon? Do you have very long or do you want to wait 'til tomorrow morning?

MS. VAN DRIEL: I don't expect to be very long.

THE COMMISSIONER: Okay. What's the wish of the crew? Should we finish? Okay. Okay. Come on up then. We'll do that then.

MS. VAN DRIEL: (Inaudible.)

UNIDENTIFIED MALE SPEAKER: (Inaudible.)

MS. VAN DRIEL: Is that (inaudible), that one is not related to that. Okay, very well.

UNIDENTIFIED MALE SPEAKER: (Inaudible.)

MS. VAN DRIEL: I don't have a whole lot. We have –

THE COMMISSIONER: Can you turn on your mic there?

MS. VAN DRIEL: I don't have a whole lot. We – I don't need to regurgitate the information that we have already heard a number of times, but I am a little puzzled about the question that was asked to you from Mr. Budden. And it sort of, and – you know, Commissioner LeBlanc wanted you to answer that, and you did that to the best of your ability.

But – the question was: Do you think that the errors made are within the civil servants or the direction given to the civil servants by ministers or the politicians? That was the question.

MR. PADDON: Right.

MS. VAN DRIEL: Correct.

So, it's a big assumption being made in this question, in my view, namely that errors were made by – maybe civil servants, or maybe by ministers. Would you agree with that?

MR. PADDON: It seems to be from the way the phrase – the question is phrased, yeah.

MS. VAN DRIEL: Right. So, in answering that question, you assumed, for purposes of answering the question, that errors were made.

MR. PADDON: Essentially, yes.

MS. VAN DRIEL: Right.

And – but one very important element of looking, overall, in hindsight, as you were asked to do, was very – one important element was left out of this, and that is Nalcor itself.

MR. PADDON: Right.

MS. VAN DRIEL: Would you agree with that?

MR. PADDON: Yes.

MS. VAN DRIEL: Yeah.

So, it's very difficult to answer a question, hypothetical as it is, assuming that errors were made, and leaving out – even out of a hypothetical question – Nalcor, which was an essential component of the question.

MR. PADDON: Right.

MS. VAN DRIEL: Would you agree with that?

MR. PADDON: Yes.

MS. VAN DRIEL: That's all I have. Thank you.

THE COMMISSIONER: Redirect, Mr. Learmonth.

MR. LEARMONTH: Mr. Paddon, I wanted to clarify –

MS. O'BRIEN: Mic.

THE COMMISSIONER: Mic.

MR. LEARMONTH: I wanna clarify some of the answers you gave to Mr. Simmons about this \$500 million figure that you said that was on your mind at some point.

MR. PADDON: Right.

MR. LEARMONTH: Okay, when was that – was that a figure that was communicated to you or was just something on your mind?

MR. PADDON: I think that was just something on my mind.

MR. LEARMONTH: Okay, no one told you about it.

MR. PADDON: No.

MR. LEARMONTH: No.

And – so that was just an idle thought?

MR. PADDON: Right.

MR. LEARMONTH: An idle thought. Okay. I wanted to make sure of that.

So you never communicated that to anyone.

MR. PADDON: No.

MR. LEARMONTH: Just something – you maybe driving home and might come into your mind – this thing could go (inaudible) –

MR. PADDON: Or, I mean, it's quite conceivable that, you know, discussions with the minister, I might have talked about that, 'cause, you know, there was – we had wide-ranging discussions over the years.

MR. LEARMONTH: Yeah, but the point is that you had nothing to base that on.

MR. PADDON: No, that was just –

MR. LEARMONTH: It wasn't like, Nalcor told you –

MR. PADDON: No.

MR. LEARMONTH: – about that, or –

MR. PADDON: No, that's correct.

MR. LEARMONTH: Okay, I just wanted to make sure.

And I just wanted to clarify one thing more on that topic, that – you said that, at one point, I think, that if Nalcor had told you about the 500 – about 500 million you might not have done anything about it? Did you say that, or did I get you wrong?

MR. PADDON: Doesn't sound –

MR. LEARMONTH: Doesn't sound right?

MR. PADDON: No.

MR. LEARMONTH: So if Nalcor had told you about a figure of 500 million, or something, you would have done something about it. In other words – let me give you an example.

If Mr. Martin or Mr. Bennett had come into your office and said, oh, by the way, I think there's another 500 million that we're gonna – we're looking at here.

MR. PADDON: Well, that's – looking at another 500 million where you have some sense of what – where that's gonna come from, is one thing. To just say that, yeah, we know in the normal course of things that something might go wrong and, you know, there's a potential that, you know, there's gonna be overruns, how much are they gonna be? Well, who knows, it could be 200 million; it could be 500 million.

MR. LEARMONTH: Yeah.

MR. PADDON: That's –

MR. LEARMONTH: So you're just giving your own internal –

MR. PADDON: Yes. Yeah.

MR. LEARMONTH: – musings about there could be cost overruns here.

MR. PADDON: That's right.

MR. LEARMONTH: It's not based in anything you were told.

MR. PADDON: No, that's right.

MR. LEARMONTH: No.

So you didn't report the five – any figure to Mr. Marshall –

MR. PADDON: No, I don't –

MR. LEARMONTH: – or anything like that?

MR. PADDON: – I don't recall, (inaudible) –

MR. LEARMONTH: (Inaudible) was just something that was –

MR. PADDON: Right.

MR. LEARMONTH: – idle thought, we'll say.

MR. PADDON: I think everybody knew that there was a risk of –

MR. LEARMONTH: Yeah.

MR. PADDON: – cost overruns –

MR. LEARMONTH: Yeah.

MR. PADDON: – you know.

MR. LEARMONTH: Just a general risk in any megaproject.

MR. PADDON: That's right.

MR. LEARMONTH: Not a specific risk.

MR. PADDON: That's right.

MR. LEARMONTH: Okay.

And just so – to – so I can clarify that because you did say, I think, very clearly and decisively this morning that, if Nalcor was aware of a potential strategic risk of \$500 million, they should have told that to government, or incorporated it into the capital cost.

Do you stand by that?

MR. PADDON: I did say this, yes.

MR. LEARMONTH: You –

MR. PADDON: I did say that, yeah.

MR. LEARMONTH: You did?

MR. PADDON: Yeah.

MR. LEARMONTH: And you confirm that that's your position?

MR. PADDON: Oh, yes. Yeah.

MR. LEARMONTH: Okay.

So you haven't changed. In the answers you gave to Mr. Simmons – maybe it was just me, but – you haven't changed any of the –

MR. PADDON: No.

MR. LEARMONTH: – evidence that you gave.

MR. PADDON: No, I don't think so, no.

MR. LEARMONTH: And you believe that if Nalcor had information that could find a basis for believing that there was a \$500 million risk, that should have been included into the DG2 numbers, or at least –

MR. PADDON: Disclosed.

MR. LEARMONTH: – advised government.

MR. PADDON: That's correct.

MR. LEARMONTH: Okay.

MR. PADDON: Yes.

MR. LEARMONTH: And just to finish that off, you're – when we talked this morning about this 300 to \$600 million strategic risk at DG2 – remember we talked about how it had been removed?

MR. PADDON: Right.

MR. LEARMONTH: Yeah.

I think your answer was – when I mentioned to you that Mr. Sturge said you were aware of that, I think your answer was that you thought that something of that, you know, that range of 300 to 600 was included in the \$5 billion cost at the time of the signing of the term sheet.

MR. PADDON: Right. I couldn't – I can't remember exact amount, but you know, I have a recollection that there was an estimate for –

MR. LEARMONTH: Yeah.

MR. PADDON: – contingencies, if you want to call it that –

MR. LEARMONTH: Yeah.

MR. PADDON: – built into the estimate, yes.

MR. LEARMONTH: Yeah, but it was built into the estimate?

MR. PADDON: That's right.

MR. LEARMONTH: So now you found out it wasn't, that's a surprise to you –

MR. PADDON: That's right.

MR. LEARMONTH: – is it?

MR. PADDON: Yeah.

MR. LEARMONTH: Yeah. Okay.

Thank you very much.

MR. PADDON: Thank you.

THE COMMISSIONER: I just have one question. I hate to keep people waiting, but on the issue of the – this high-level deputy minister group –

MR. PADDON: Right.

THE COMMISSIONER: – that you had, the impression I got from what you were saying about what they were doing was that this was a group of, say, eight to 10 deputy ministers from various departments?

MR. PADDON: Yeah, may have been less than that.

THE COMMISSIONER: Mmm.

MR. PADDON: I think I said that, but might have been –

THE COMMISSIONER: Yeah.

MR. PADDON: But you know, certainly in the seven range, yeah.

THE COMMISSIONER: Right.

And they had – there was a Nalcor official on that?

MR. PADDON: Right, Gilbert Bennett. Yeah.

THE COMMISSIONER: Gilbert Bennett.

So my understanding is the purpose of that was to basically – and correct me if I'm wrong – was

basically to make sure that what needed to get done within the departments – everybody knew what was going on, so that it would get done?

MR. PADDON: That's right.

THE COMMISSIONER: Okay. So it didn't have – so did it have any other function besides that?

MR. PADDON: No.

THE COMMISSIONER: Okay. So it was mostly to get things done?

MR. PADDON: That's right.

THE COMMISSIONER: Okay.

MR. PADDON: Probably call it a coordinating committee more than anything else, I suppose.

THE COMMISSIONER: Okay.

MR. PADDON: Yeah.

THE COMMISSIONER: All right. Good.

Thank you, Mr. Paddon.

MR. PADDON: Thank you.

THE COMMISSIONER: You're free to go, and we'll end for the day. And we'll come back tomorrow morning at 9:30, and I guess we have Mr. Marshall tomorrow. Correct.

Okay, so (inaudible).

CLERK: All rise. This Commission of Inquiry is concluded for the day.