

Contingency

MHI has reviewed the additional information provided by Nalcor on contingency allocation for the Muskrat Falls project. The contingencies for the Muskrat Falls Generating Station (GS) and Labrador Transmission Asset (LTA) come out at 9.0 % and 9.1% respectively, and look reasonable. With this contingency allocation to the GS and LTA, this leaves the Labrador Island Link HVDC facilities with 3.7% (86.48 million/ 2,359 million) for contingency.

Please provide support for this level of contingency (86.48 million) for the LIL HVdc transmission facilities.

As part of its estimate contingency setting process with Westney Consulting, Nalcor has evaluated the potential risks (both threats and opportunities) that may impact the expectations set forth in the Project's base cost estimate. Through this process, specifically for LITL there were a significant number of opportunities that if realized that could offset potential threats and hence significantly reduce the expected contingency requirement for LITL. Specific examples include:

- The potential reduction of budgeted weather downtime during the construction of the overland transmission line.
- The successful negotiation of embedded fibre in the SOBI cable rather than a separate subsea fibre line
- Ability to re-use the 2011 HDD test bore hole for the permanent cable installation thus reducing the HDD drilling scope.
- Successful negotiation with the cable vendor a solution that entails no subsea cable joints which saves 21 days of vessel operating cost at \$250k/day.
- The successful negotiation of a Drag Free Zone on the SOBI cable which would reduce the quantity of rock dumping
- Ability to attract local labour from St. John's metro area for the Soldier's Pond scope thereby reducing the budgeted Living Out Allowance paid to workers.
- Improved geotechnical conditions at Soldier's Pond which would reduce the rock excavation works for the Synchronous Condenser facilities (verified by the AMEC field investigations which occurred in late May)
- The potential to remove the budgeted capital for the conversion of the Holyrood generating units to synchronous condenser support in lieu of increasing the capacity of the Soldier's Pond units from 150 to 175MVar.
- Realization of cost savings opportunities for transformers (as supported by third party benchmarking produced by PowerAdvocate)
- Reduction in the requirement for remote camp construction on the Island portion of the line given the proximity to local communities.