

**From:** [pharrington@nalcenergy.com](mailto:pharrington@nalcenergy.com)  
**To:** [Brian Crawley](#); [Jason Kean](#)  
**Cc:** [gbennett@nalcenergy.com](mailto:gbennett@nalcenergy.com)  
**Subject:** Re: MHI final draft 3 DG3 report  
**Date:** Sunday, September 23, 2012 3:17:43 PM

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Brian

This issue may need a phone call with Paul Wilson, which I am glad to take however perhaps this could be cleared up with an email along these lines.....

Jason

Are you Ok with this as written?

Paul

Regarding your email recently with respect to escalation- the Project Team has the control of the escalation and contingency allowances. There may have been some mis-communication earlier on this topic so I wish to rectify any incorrect impression that may have been left with you and your team. Both the escalation allowance and the contingency allowances are intended to be expended through the course of the project. The project team have calculated what both these allowances should be using the risk analysis process and with reference to our various expert advisors on escalation indices. We have made an assessment of what the escalation is for any piece of equipment as part of the estimating process, when we get the firm bids in we have found that the escalation amount we had allowed for that contract is included in the fixed and firm contract pricing . Examples of this are the recent Turbine Generator Contracts and the SOBI Cable contract. In such cases we will roll that escalation saving back into the combined escalation and contingency allowance pot for use when needed. So effectively we have approximately 13.3% over the Base Estimate amount in allowances consisting of escalation and contingency for use by the Project team furthermore we have started to find some savings as a result of value engineering and actual bids coming in which are lower than we had estimated . We shared the \$77M we had identified for the SOBI scope of work alone - these savings are also put back into the allowance pot for use as required.

We are aware that not all Projects allow the control of the escalation allowance to be within the jurisdiction of the Project Director, however we have designed our financial controls within LCP to do exactly that. Hence we feel that the allowances we are carrying for the project which are at the disposal of the Project Director and are in the 13 to 15% range (when we include the \$77M SOBI savings) are quite appropriate when considering the project engineering definition which is currently over 50%.



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Gilbert Bennett---09/21/2012 09:12:17 PM---One thing to clarify is that escalation allowances are within the project team's budget! Manitoba H

From: Gilbert Bennett/NLHydro

To: Brian Crawley/NLHydro@NLHYDRO, Paul Harrington/NLHydro@NLHydro, Paul Humphries/NLHydro@NLHydro, Carla Russell/NLHydro@NLHYDRO

Date: 09/21/2012 09:12 PM

Subject: Re: MHI final draft 3 DG3 report

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One thing to clarify is that escalation allowances are within the project team's budget! Manitoba Hydro may not do that, but that is our practice...

G

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**From:** Brian Crawley

**Sent:** 09/21/2012 08:13 PM NDT

**To:** Gilbert Bennett; Paul Harrington; Paul Humphries; Carla Russell

**Subject:** Fw: MHI final draft 3 DG3 report

Let's discuss by phone if need be.

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**From:** "Paul Wilson" [plwilson@mhi.ca]

**Sent:** 09/21/2012 10:18 PM GMT

**To:** Brian Crawley

**Subject:** MHI final draft 3 DG3 report

Hello Brian, I thought I would send you a clean version with the lines to be addressed highlighted in yellow.

The first line on page 77 has been set to Charles for him to deal with – he may call you on this.

The second line on page 77 deals with PPA rates and I will wait for you to confirm.

Contingency I have reviewed with my estimating engineering we have to revisit this item as MHI does not agree with the wording. See pages 55 and 56.

The Muskrat Falls Generating Station project contingency in the Decision Gate 3 estimate is 9.0% (or 15% with escalation and allowances), which in MHI's experience, is at the lower end of the range for this level of estimate.

MHI does not agree with Nalcor's position that escalation should be included in the contingency calculation. Your project managers do not have access to these funds to help them manage technical scope change in their projects. Any savings in escalation when a lower actual rate is experienced maybe accessible if released by Corporate Finance but that is likely after the fact. We agree that any allowances attributable to savings and assigned to Muskrat Falls are applicable as you have noted. In RE91 (attached), allowances are only a thin part of that contingency calculation.

Alternate wording,

The Muskrat Falls Generating Station project contingency in the Decision Gate 3 estimate is 9.0%, which in MHI's experience, is at the lower end of the range for this level of estimate. The allocation of any allowances would improve the project contingency, as Nalcor has done for the HVdc converters.

If you would like to discuss, please give me a call this weekend or on Monday.

Have a good weekend,

**Paul Wilson, P. Eng.**

Managing Director, Subsidiary Operations

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