

**Fw: Cost Overrun estimates Maritime Link**

**Mark Bradbury** to: Auburn Warren, TOM GARNER, Jason Kean

2011-06-27 01:31 PM

Not sure if daves note below helps us a whole lot. The project controls group is the keeper of project cost estimates. Jason might be able to shed some light but I think he is away right now. I would be reluctant to comment on this other than to reiterate daves comments re work that was done in connection with the risk analysis. My recollection was that they finished up at 15 prcnt base contingency and 6 prcnt mgt reserve, but I think the 6 prcnt came out during negotiations. I don't recall if these were for all three project components, but my understanding is that the stage of design robustness for the ML is not what it is for muskrat, so one would think that that fact would push a greater contingency for ML. But that is only my own musings. It would be great if we had the benefit of jasons input before we put this on the table. Could it wait until we can make contact with him?

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Dave Pardy

----- Original Message -----

**From:** Dave Pardy

**Sent:** 06/27/2011 11:59 AM NDT

**To:** Mark Bradbury

**Cc:** Lance Clarke; Jason Kean

**Subject:** Re: Cost Overrun estimates Maritime Link

Mark

What you indicate below may very well be accurate, However, the only figure that I have knowledge of is the 15% contingency that was applied to the Base capex. The second 15% is probably correct but I do not have knowledge of the "Contingent Equity" (If that is the correct Term) that is a number that was carried by the executive not the project. That being said, if the second 15% is correct then the 30% would correlate.

As the cost estimate gets further defined the contingency will also be adjusted to reflect the confidence in the preparation of the estimate and scope definition. Whether the Total of the Project execution estimate and the "Contingent Equity" remains the same, is another matter for the executive to agree on.

The timing for adjustments of contingency will coincide with the re -estimate. For the ML I am not sure of the interim time table but I would assume that a re -estimate will have to be performed based on a revised Basis of Design and completed before the end of October to support EOY decisions.

Hope this helps.

Jason is a far better resource for items beyond the Base Capex estimates.

David P

**David Pardy**  
 Project Controls Lead  
 LC Project  
 LCP Business Services  
 Nalcor Energy - Lower Churchill Project  
 t. 709 737-1832 f. 709 754-0787  
 e. [DavePardy@nalcorenergy.com](mailto:DavePardy@nalcorenergy.com)  
 w. [nalcorenergy.com](http://nalcorenergy.com)  
 1.888.576.5454

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Mark Bradbury	Hi Dave As part of the negotiation of the Maritim...	06/27/2011 09:18:25 AM
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From: Mark Bradbury/CRP/NLHydro  
 To: Dave Pardy/NLHydro@NLHydro  
 Cc: Auburn Warren/NLHydro@NLHYDRO, tom.garner@[REDACTED], Lance Clarke/NLHydro@NLHydro, Jason Kean/NLHydro@NLHydro  
 Date: 06/27/2011 09:18 AM  
 Subject: Cost Overrun estimates Maritime Link

Hi Dave

As part of the negotiation of the Maritime Link Joint Development, there is a clause that speaks to the financing that each of the proponents is obliged to have in place upon sanction. The first speaks to Emera's obligations and reads:

**9.11 (c) Emera Obligations on ML Joint Sanction - Not less than ● (●) days before delivery of an Emera ML Sanction Notice, and as a condition precedent to Emera's right to deliver an Emera ML Sanction Notice, Emera shall deliver to Nalcor evidence satisfactory to Nalcor, acting reasonably, that Emera has arranged and will have available throughout the ML Project until the expiration of the Term, internal financing, committed external equity financing from Qualified Investors, and/or committed debt financing from Qualified Lenders, sufficient to fund:**

- (i) the Estimated Capital Costs as of the date of delivery of such evidence to Nalcor;
- (ii) a further amount equal to ● percent (●%) of such Estimated Capital Costs as contingent financing for potential UARB Approved Overruns; and
- (iii) a further amount equal to ● percent (●%) of such Estimated Capital Costs as contingent financing for Emera's share of potential Unapproved Overruns.

The second speaks to Nalcor's obligations and reads:

**9.11 (e) - Obligations When Only Nalcor Sanctions** - If Emera Non-Sanction occurs and Nalcor intends to exercise the PPA Option, then not less than • (•) days before giving Notice of such exercise to Emera, and as a condition precedent to Nalcor's right to exercise the PPA Option, Nalcor shall deliver evidence satisfactory to Emera, acting reasonably, that Nalcor [or Nalcor Projectco] has arranged and will have available throughout the ML Project until the expiration of the Term, internal financing, committed external equity financing from Qualified Investors, and/or committed debt financing from Qualified Lenders sufficient to fund:

(i) the Estimated Capital Costs as of the date of delivery of such evidence to Emera; and

(ii) a further amount equal to • percent (•%) of such Estimated Capital Costs as contingent financing to cover potential Actual Capital Costs in excess of such Estimated Capital Costs.

Our understanding from LCP is that the current Class 3 estimates are -15% +30%. The ML estimates may not be at this level of refinement now but are in development. Based on this piece of information the team is considering a starting point below in red.

1. Re the • for 9.11 (c) (ii) 15%

2. Re the • for 9.11 (c) (iii) 15%

3. Re • for 9.11 (e) (ii) 30%

A few questions:

a) - re these figures applicable to the estimates we have used for the Maritime Link and if so:

b) - is there a possibility that they will be reduced as the ML cost estimates are further refined?

c) - Do we know when that would be?



**Mark Bradbury**  
 General Manager Finance  
 Nalcor Energy - Lower Churchill Project  
 t. 709 737-1294 c. 709 685-9747  
 e. [MBradbury@nalcenergy.com](mailto:MBradbury@nalcenergy.com)  
 w. [nalcenergy.com](http://nalcenergy.com)  
 1.888.576.5454

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