RW Block Consulting

Memorandum

From:	Derek Hennessey, Director, R.W. Block Consulting
To:	Grant Thornton, Muskrat Falls Project Team
Date:	November 26, 2018
Subject:	Muskrat Falls – Clarifications to RWBC CT0327-001 Memorandum

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The Grant Thornton Muskrat Falls Project Team ("Grant Thornton) requested that R.W. Block Consulting, LLC ("RWBC") to clarify the following areas from its CT0327-001 memorandum dated November 1, 2018 (the paragraph numbering is from the original memorandum):

3. **Contract Performance Security**

    d. **Summary**

        i. The security Nalcor required from Valard was less than it required from Astaldi on the CH0007 contract. The CH0007 contract required:

            1. A parent guarantee, which CT0327-001 also required,
            2. A letter of credit worth 10% until final completion was achieved, compared with the 8% required by CT0327-001, and
            3. A CAD $150,000,000 performance bond, and CT0327-001's final contract removed the requirement for a performance bond.

        ii. Contracts that require performance bonds, often require bonds in the amount of 100% of the project's value. However, on very large projects (such as this) we have seen lower bonding requirements (such as 50% of contract value – which was the amount identified in the RFP), and other approaches such as Letters of Credit and Parent Guarantees. As such, Nalcor's approach is consistent with approaches we have seen on other large contracts.

Clarification:

RWBC was asked to clarify its statements in paragraph 3.d.ii, particularly the statement "As such, Nalcor's approach is consistent with approaches we have seen on other large contracts."

In the original memorandum we did not state that, in our experience we do not typically see requirements for both Parent Guarantees and Performance Bonds for 50% or more of the contract value on large contracts. We generally see one or the other. Including the Parent Guarantee in the contract is why we stated Nalcor's approach was consistent with approaches we have seen on other large contracts.