

**Decision/Direction Note
Cabinet Secretariat**

Title: Contract Award – Muskrat Fall Oversight Committee Advisory Services

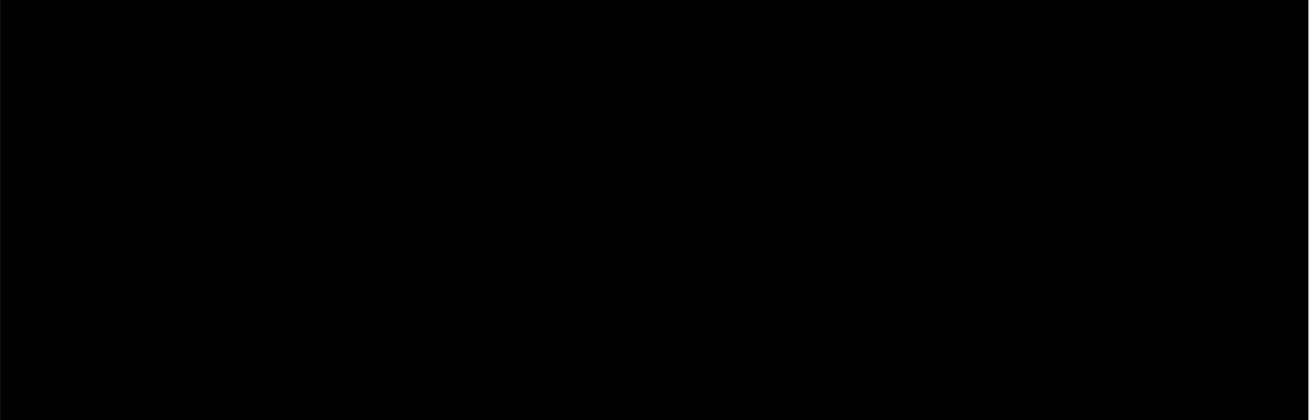
Decision/Direction Required:

- Authority is requested to:
 - Award a contract to Ernst & Young LLP (EY), pursuant to Section 4.1 of the Guidelines Covering the Hiring of External Consultants, for Advisory Services for the Muskrat Falls Oversight Committee (the 'Committee') for the remainder of the 2014-2015 fiscal year to a maximum value of \$250,000 plus HST.

Background and Current Status:

- Government established the Committee in March 2014 to strengthen and formalize existing oversight of the Muskrat Falls Project. Pursuant to its Terms of Reference, the Committee's oversight is focused on project costs, schedule, and risk.
- To support the Committee's early deliberations, in March, 2014, EY was retained on a short-term contract to conduct an assessment of the Committee's terms of reference and to provide advice on what is required to effectively monitor the project's cost, schedule and risks. EY's report to the Committee was received on July 25, 2014.
- The Committee's first report was issued in July 2014 and focused on the Committee's Oversight Framework and Nalcor's reporting requirements; it did not provide an assessment of Nalcor's management of project cost, schedule and risk. A copy of EY's report to the Committee was included as an appendix to the Committee's July report. The Committee's next report, which will cover the period July 1-September 30, 2014, is due to be issued in November 2014. Public expectations are that this report will provide an assessment of the management of project cost, schedule and risk.
- On September 29, 2014, in accordance with section 3.4(a) of the "Guidelines Covering the Hiring of External Consultants," the Committee issued a limited call Request for Proposals (RFP) seeking consultancy services on a fee-for-service basis to support its activities and to ensure specialized advice is available to support the review and interpretation of project cost, schedule and risk information provided to the Committee by Nalcor.
- The terms of the RFP stated that the current contract period would expire March 31, 2015, but included an option to renew, by the Government at its sole discretion, for a second, third and fourth year ending March 31, 2016, March 31, 2017 and March 31, 2018, subject to budgetary appropriation. It was determined that continuity of this specialized advisory service would be important throughout the construction period of the Muskrat Falls Project. Since the Committee does not have a block base of funding it could not seek a pre-commitment of funds to award a multi-year contract. Consequently, Cabinet approval of renewal of the contract will be required each fiscal year, but issuance of a new RFP will not be required.
- Five major accounting and consultancy firms were identified with the requisite experience in major capital projects operating in NL: Deloitte; Price Waterhouse Cooper; KMPG Canada; Grant Thornton; and, EY. Deloitte is Nalcor's external auditor; if employed by the Committee it

would be difficult to avoid the perception of a lack of independence. Grant Thornton provides services to the NL Board of Public Utilities and for that reason declined to bid on the first consultancy contract in March, 2014. Accordingly, the RFP was issued to the remaining three firms: KPMG Canada; Price Waterhouse Cooper; and, EY. The RFP closed at 4:00 p.m. on October 6, 2014. EY was the only respondent.

- EY's submission commits a senior-level team comprising key representatives from its Major Capital Projects practice and Advisory Services, including a partner, two associate partners, a manager and two senior analysts. The Committee's recent experience with EY, in preparation of the Committee's TOR and the Oversight Framework was very positive and included working with these specific individuals.
 - Given that there was only one respondent to the RFP, a review of rates charged in recent contracts with other firms was compiled to determine the reasonability of EY's proposed rates. The following table provides the hourly charges quoted by EY (as presented in their response to this RFP) compared to KPMG (as charged for recent work completed for GNL), and Grant Thornton (as charged for work in 2013/14 for NR). The quoted rates appear reasonable in the context of other work performed by comparable staff.
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- Budget 2014/15 allocated \$500K for the Committee. It is anticipated that approximately \$292K will be expensed on consultancy fees by fiscal year end. This comprises:
 - \$100.5K for six months' analysis support;
 - \$32K in support of two additional quarterly reports;
 - \$16K for one site visit by EY;
 - \$100K for special projects (for example, requiring EY to undertake audit verification of Nalcor management plans); and,
 - \$43.8K for professional services already incurred (earlier EY contract).
- FIN confirms that the Committee has the necessary funds for the current fiscal year; however, there are no funds in the fiscal framework for any of the out years and any funding requirements would have to go through the normal budget process.
- Treasury Board and NR have no concerns.

Prepared/Approved by: J. Power/C. Martin, Cabinet Secretariat

Approved by: J. Mullaley

October 17, 2014

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Cabinet Secretariat**

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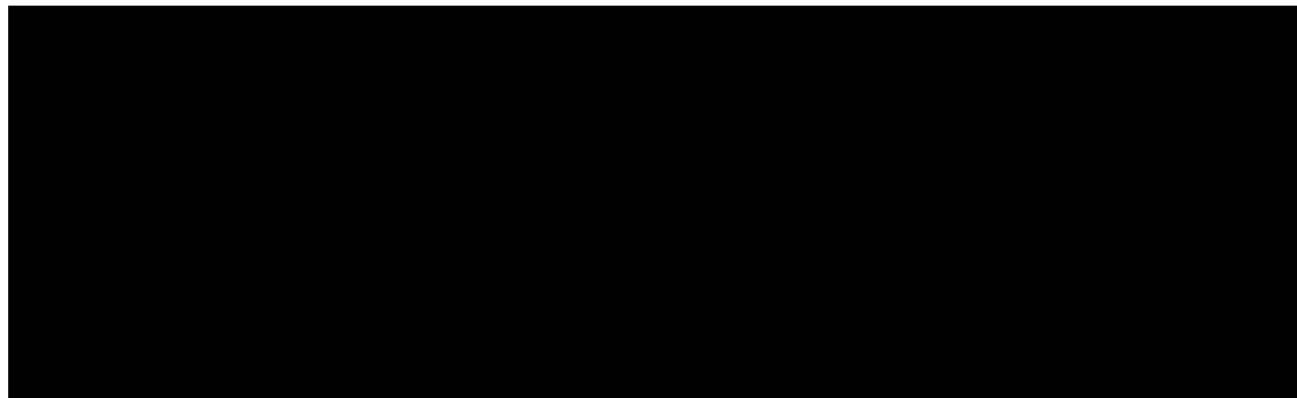
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 - \$32K in support of two additional quarterly reports;
 - \$16K for one site visit by EY;
 - \$100K for special projects (for example, requiring EY to undertake audit verification of Nalcor management plans); and,
 - \$43.8K for professional services already incurred (earlier EY contract).
- FIN confirms that the Committee has the necessary funds for the current fiscal year; however, there are no funds in the fiscal framework for any of the out years and any funding requirements would have to go through the normal budget process.
- Finance and NR have no concerns.

Prepared/Approved by: J. Power/C. Martin, Cabinet Secretariat
Approved by: J. Mullaley
October 17, 2014

2014/10/23

-0516

NR/DM
TB/Secretary
FIN/DM
Deputy Clerk
File

-117.

An Update respecting Contract Award – Muskrat Falls Oversight Committee Advisory Services was received from the Clerk of the Executive Council.

Approval was given for Executive Council to award a contract to Ernst & Young LLP, pursuant to Section 4.1 of the Guidelines Covering the Hiring of External Consultants, for Advisory Services for the Muskrat Falls Oversight Committee for the remainder of the 2014-2015 fiscal year to a maximum value of \$250,000 plus HST.

Julia Mullaley
Clerk of the Executive Council