



Muskrat Falls Project Oversight Committee

July 29, 2014

Background



- March 2014 – Government announced Muskrat Falls Project Oversight Committee to:
 - Strengthen existing oversight on the Project
 - Report quarterly to Cabinet and the public

Committee Membership



- Clerk of the Executive Council, Chair
- Deputy Minister, NR
- Associate Deputy Minister, NR
- Deputy Minister, FIN
- Assistant Deputy Minister, FIN, Taxation and Fiscal Policy
- Director of Debt Management, FIN
- Deputy Minister, JUS
- Assistant Secretary to Cabinet for Economic Policy

- Supported by a Working Group with specialized skills in the areas of engineering, construction project management, accounting, auditing and the law.

Priorities to date



Oversight Framework developed:

- Committee's Terms of Reference
- Required Information and Reporting Protocols
- Use of existing oversight

Independent Advice



- Engaged Ernst and Young LLP Major Capital Project Team to advise on the development of the Oversight Framework.
- Three main recommendations:
 1. The Committee should review cost and schedule performance, forecasts and risk management, in addition to the validity of the costs incurred;
 2. The Committee should be supported with specialized skills; and,
 3. The Committee should align its information requests with conventional project controls and assurance practices and the reporting rhythm of Nalcor.

Terms of Reference



- Focuses the Committee's scope on cost, schedule and risk.
 - Not day-to-day management, oversight of health, safety and environment, quality, regulatory compliance and benefits tracking.
 - Not to unnecessarily duplicate existing oversight
 - Leverage existing oversight

Terms of Reference



Mandate to provide reliable and transparent oversight on the following key issues:

The Project cost and schedule are well-managed - the Committee will examine issues such as whether management processes and controls are well-designed and followed, contracts are being managed diligently and financial drawdowns comply with established processes;

The Project is meeting the cost and schedule objectives – the Committee will examine issues such as how schedule performance and forecast compare to the plan, how cost performance and forecast compare with the budget, how cost and schedule forecasts compare with current performance, and how cash flow forecasts reflect the project's funding requirements; and,

The cost and schedule risks are being reasonably anticipated and managed – the Committee will examine issues such as whether risks are being sufficiently identified and addressed and whether Nalcor has established adequate contingency to address outstanding Project risks.

Terms of Reference



- Other components of the TOR include:
 - Statement of Objectives to provide reliable and transparent oversight on the cost and schedule performance of the Project and to establish a direct and effective communication channel to Cabinet and the general public.
 - Committee Membership
 - Statement of Accountability to Cabinet for Project oversight and periodic reporting on the Project's: a) cost and budget performance, b) schedule performance and c) cashflow requirements.
 - Meeting frequency: monthly and more frequently as required

Decision Required



- Whether to approve the Committee's Terms of Reference

Required Information and Reporting Protocols



- EY provided recommendations to define the types of information the Committee will require to effectively evaluate Project costs, schedule and risk management, based on its experience with projects of comparable scale and complexity
- EY recommended the level and timing of reporting should align with the reporting structure and rhythm of the Project.
- Shareholder's letter formally directs Nalcor on these information and reporting requirements.

Decision Required



- Whether to approve and release the Shareholder's Letter

Use of Existing Oversight



The Committee identified key existing oversight processes which may be leveraged:

- The Independent Engineer (IE)
- Nalcor's Internal and External Auditors
- Nalcor's Management Monitoring, Quality Assurance, and Reporting Processes

Independent Engineer



- MWH Canada Inc.
- Requirement of the Federal Loan Guarantee
- Scope of work covers two phases of Project:
 - Phase 1: pre-financial close
 - Phase 2: construction/operations

Independent Engineer



- Phase 2: Construction/Operations
 - Monitor engineering and procurement relative to Milestone schedules
 - Conduct site visits/review quality control documents to assess compliance with schedules
 - Review change orders to construction contracts
 - Prepare periodic and final report/other documents
 - Verify project completion

Independent Engineer



- Established a formal arrangement with the Independent Engineer
 - Provides access to all materials and activities undertaken by the Independent Engineer, all certificates and reports to the Province concurrently with the Government of Canada.
 - Provides rights to participate in any meetings, site visits and conference calls between MWH and Nalcor Energy and its subsidiaries.
 - Provides access to all discussions, reports and findings of the IE as it performs its due diligence activities relating to the Project.

Independent Engineer



- Participated in IE site visits and other meetings between July 14 and 23, 2014
- Independent Engineer's next visit – October 2014
- Independent Engineer's next report – late November, early December 2014

Use of Existing Oversight - Nalcor



External Financial Auditor

- Requested Nalcor to direct its independent external auditor to undertake additional auditing procedures on the appropriateness of costs charged to the Muskrat Falls Project

Internal Financial Auditor

- Met with Nalcor's internal auditors on Nalcor's Internal Audit Assurance Framework
- Reviewed the Internal Audit Plan for 2014 and 2015 and worked with Nalcor to prioritize areas for review

Opportunities for Proactive Disclosure



- Consistent with GNL commitment to transparency, Committee proposing:
 - Increased level of details on Project budget
 - Revised capital budget at Financial Close in December, 2013 was \$6.532 billion
 - Increased level of details on Schedule Milestones
 - Separate financial statements for Project when available (after July)
 - Established Committee website, linked to Nalcor
 - Post Committee minutes and reports

Decision Required



- Whether to approve and publicly release the Committee's report, containing:
 - The Financial Close Project Budget: \$6.532B
 - The Ernst and Young LLP report
 - The Shareholder's Letter
 - The Committee's Terms of Reference

Next Steps



- Information pursuant to the Shareholder's Letter to be received by July 31, 2014 for period ending June 30, 2014
- Focused analysis on above information
- Continued discussion with IE and Nalcor
- Participation in next IE visit/meetings, October 2014
- Committee's next report, for the Quarter ending September, 2014, to be released in November, 2014

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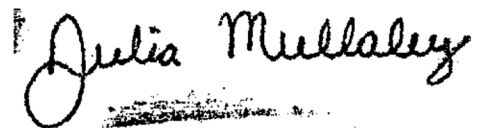
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-090.

An Update and Presentation respecting Muskrat Falls Project Oversight Committee Report was received from the Clerk of the Executive Council.

The following direction was provided:

- 1) Approval was given for the first report of the Oversight Committee, as on file with the Clerk of the Executive Council, including:
 - a) The Financial Close Project Budget,
 - b) The Ernst and Young LLP Report,
 - c) The Shareholder's Letter, and
 - d) The Terms of Reference of the Oversight Committee; and
- 2) Approval was given for the public release of the documents referred to in Item 1.



Clerk of the Executive Council