Opportunity Meeting with Valard / Quanta (August 15 – 16)

The Players

LCP		Valard / Quanta
Jason Kean	Claude Daneau	BJ Ducey
Rick Donica	Kumar Kandaswamy	Victor Budzinski
Lance Clarke	Kyle Tucker	Adam Budzinski
Pat Hussey	Rosann Taylor	Joe (Estimator)
	Normand Mongrain	
	Karl Miller	

Current Situation

- Latest Valard price is ~$271 million, excl. fuel escalation
- DG3 budget ~$200 million, which is based upon ~10,000 MT of towers, rather than current 11,700 MT of towers. Considering this an other adjustments, equates to some $10+ million of additional cost
- There are several other factors in the scope, which likely bring today's equivalent cost in the range of $220 to $225 million (TBC). Thus Valard's current premium is somewhere between $45 and $50 million.

Meeting Objectives

- Determine if a Win/Win framework exists to allow us to move forward with an Award Recommendation for the AC line.

Nalcor's Desires

- Present an award recommendation for between $240 and $250 million, inclusive of a 2% growth allowance.
- Tight contract, than includes no gaps for the specific things we need from Valard, incl. focussed effort on safety, tight QC program, and strong site management team.

Meeting Roadmap

- Understand key influencers on cost differential between Valard and LCP
    - Productivity drivers influence assembly and erection
- Identify cost savings opportunities
- Discuss key risks according – discuss how they can be mitigated in order to reduce overall costs
- Discuss how we will work together and our expectations of Valard

Meeting Strategy

- We meet as a smaller group – Donica, Lance, Pat and Jason. Other team members are on standby in the event they are required (incl. Karl Miller)
- Convey the message that Valard are dealing with the Owner, rather than a middle person (i.e. consultant)
- Karl will attempt to reach out to BJ Ducey prior to the meet and plant the seed that that they should consider working with us on the AC considering the large carrot we have dangled (i.e. HVdc line)
- Deliver hard-line message re need for Valard to work with us, or we are faced with no decision that bid DC line.
- Tackle $30 to $40 million delta via bite size pieces.
- Likely only need 1 day for negotiations – if we can't get traction during 1 day, then doubt we will get much on the second day.

Key Messages

1. Achieve a Win/Win Outcome
2. Adherence to Nalcor Values during all negotiations and execution of the work
3. We believe in risk allocation – allocate small risks to the party best able to manage + consider sharing large risks (incl. cost sharing risk)
4. If we can close the current gap, they we are willing to consider not bidding the HVdc line (at least Section 1)
5. We are not a typical Owner – we want to work with you during the execution in order to make you successful! For instance, we will support joint planning, daily plan review meetings, strong and open communication lines, field decision making, Owner in-charge – no middle person.

Our Constraints

- We must cap our cost exposure – we must have a price ceiling
- We must understand and rationale our differential and be able to explain this to our CEO and Board in order seek approval to award this contract
- Our process requires us to bid the HVdc line; moving away from this would take serious rationale and approval of the CEO

Negotiation Order

1. We think that 3.5% margin reduction is nice, but we want 4.5%. Willing to settle for 3.5%. ($9 to 12 million)

2. Cost Item 1: Geotechnical Program – remove all but deep pile foundation and 100 dead-end structure test points. ($2.5 to $3 million)

3. Cost Item 2: Rotational Travel – we have a charter available – savings and convenience. Will provide daily, regular service to and from various pick-up points on the Island.

4. Cost Item 3: Reference Exhibit 2 – Compensation, Attachment 2, Section 17.2 of Basis of Payment, remove 5% margin on steel tonnage. We must confirm the tonnage that Valard has included within their estimate, place on the total tonnage that we have ordered 11,200 MT. We will pay for any variance. Need unit price for up and down tonnage change (must be the same amount). ($5 million)

5. Cost Item 4: Remove non-payment for 5% margin on weight of tower foundation. Reference Exhibit 2 – Compensation, Attachment 2, Section 10 of Basis of Payment, remove 5% margin. ($ 2 to $3 million)

6. Stringing Operations: We are accepting all risks on skips and non-sequential stringing. Our construction plan for Valard is making it as efficient as possible (with the adjustment to a single work front). We don't think you reflected this in your price to us. This is worth $5 to 7 million.

7. Owner Assumption of Risk: In the event that any of the following occur, Valard is not at risk for cost, rather is in a position to earn more money as they will be eligible for a change order.
   - Materials – Quanta spoke to all 10 jobs currently underway in the US have material challenges. We wish to remove this concern. We have placing extensive effort into ensuring that the right QC checks are done and the material is available when required. We will use the Kenny model (Devers) – this approach, according to Kenny, will save Valard between 2 – 3 % of total contract cost. We are willing to kit the material thus removing the need for Valard to establish separate material staging yards, while also making their crews more productive.
   - Design is complete. All materials are ordered, being manufactured, or shipped (insulators on-route, one-third of tower steel being bundled). This is an extreme advance as compared to typical jobs, incl. Valard's NTL EPC project.
   - We will have sufficient resources, with the level of decision making authority, required to make decisions required to avoid delaying Valard
   - Environmental: Bird Nesting, Flora & Fauna, Archeological, Caribou and the like that can delay the work or cause demobilization
   - Permitting – any actions for permitting that are our responsibility will not be the cause for Valard's delay, providing Valard provides reasonable notice. We have the ability to facilitate permit approval from the Province.

- Right-of-Way Clearing: GWF will stay ahead of the Valard's work front and ensure a free workface is available for them to progress. Valard will not catch the contractor.
- Fuel escalation risk – all risk by Owner
- Project Labor Agreement in-place and favorable for recruiting high-end labor

8. Joint final climbing inspection – remove the risk of a second climb by Valard at the end of the job, thus resulting in 1 vs 3 climbs

Other Points for Discussion

- Daily cost at camp – too high
- Meal cost
- Subcontractor management
- Innu participation
- Concrete supply price
- Maintain TLH access points with culverts rather than have GWF remove and reuse
- Laboratory services – we have a lab
- Sharing of catering service provider – use the same cater across the entire Project – provides savings for all components
- Force Majeure – is our language too restrictive re weather
- Insurance – Value in reducing the deductible
- Training of local labor
- Access to Labrador fibre for communications needs

Information Required from Valard

- Details on crew sizes for each operations, including equipment list and mob & demob costs, thus allowing us to manage cost of change