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To: lanceclarke@nalcorenergy.com
Subject: Emailing: LC-G-002 RFP - Deck for Ed - 16 Dec. 2010 - Final
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Pat Hussey
Supply Chain Manager
Nalcor Energy - Lower Churchill Project
t. 709 737-1493 f. 709 737-1985
e. PatHussey@nalcorenergy.com
w. nalcorenergy.com
1.888.576.5454

RFP for EPCM Services
Evaluation Summary and Recommendation

Dec-2010

Boundless Energy

nalcor energy
LOWER CHURCHILL PROJECT

Purpose

- Recap the RFP process
- Present evaluation results
- Seek approval on recommended way forward
  - Selection of EPCM Consultant
- Discuss next steps and timing

Evaluation Scope & Recap

- Muskrat Falls Scenario A evaluated
  - Consistent with Phase 1 development
- RFP compensation scheme was Reimbursable + Fixed Fee
- Three (3) proposals for EPCM services received on Sept 16
  - Black & Veatch, Hatch, SNC
- Black & Veatch dropped October 22
- Evaluation has continued with Hatch and SNC

Evaluation Findings

- Technically, SNC had a stronger proposal
  - Both SNC and Hatch were determined to be capable of executing full EPCM scope
- Commercially, SNC is preferred, there exists a substantial delta between the proposals
  - Base labor rates are deemed comparable
  - Significant delta on the fixed fee portion of the proposals
- Summary: SNC scores higher than Hatch technically and commercially, thus providing “Best Value”

Evaluation Scoring

Normalized Person-hours & Normalized Base Salaries

MF Scenario A - Component	Percentage Weighting	SNC		Hatch	
		Component Summary Score	Weighted Score	Component Summary Score	Weighted Score
Muskrat Falls - Technical	48.75	82.61	40.27	79.20	38.61
HVdc Specialties - Technical	7.50	84.87	6.37	73.88	5.54
Overland Tx - Technical	18.75	81.64	15.31	72.23	13.54
Commercial	25.00	99.00	24.75	81	20.25
Total Score	**100**		**86.70**		**77.90**

Evaluation Scoring

Normalized Person-hours & As-Bid Base Salaries

MF Scenario A - Component	Percentage Weighting	SNC		Hatch	
		Component Summary Score	Weighted Score	Component Summary Score	Weighted Score
Muskrat Falls - Technical	48.75	82.61	40.27	79.20	38.61
HVdc Specialties - Technical	7.50	84.87	6.37	73.88	5.54
Overland Tx - Technical	18.75	81.64	15.31	72.23	13.54
Commercial	25.00	86.10	21.53	81.00	20.25
Total Score	**100**		**83.50**		**77.90**

Estimated Contract Value

	SNC	Hatch	Delta
Method 1: Normalized Hours & Salaries	$285 M	$381 M	$94M
Method 2: Normalized Hours & As-Bid Salaries	$304 M	$362 M	$58M

Dominant amount of delta due to the difference in the fixed fee

Fixed Fee Delta Explanation

- Hatch Fee is approximately 50% markup
  - Profit approximately 10%
  - Hatch has included 15%+ for risk
  - Due to office overhead deltas; 7%+ speculated to be in Hatch's Fee versus office overhead
  - Additional delta speculated to consist of other overheads and fees from Alliance partners
  - Hatch Fee is clearly not an error – held several clarification discussions
- SNC Fee is approximately 13% markup
  - Profit approximately 10%

Recommendation

- Issue Letter of Award to SNC
  - Contract Value estimated at ~$285M
- Continue to work with SNC to finalize formalities of the Contract exhibits

Next Steps and Timing

- Issue of Letter of Award to SNC
  - Timing ?
- Debrief unsuccessful Bidders
- Continue preparation of final contract document
- Continue mapping out mobilization phase (Award + 90 days) priority activities
- Explain decision on office facilities

Back-up Material

Key Messages

- Both finalists have offices across Canada
- Both finalists have large NL presence
- We have selected the best company for the Project
- Main project office will be located in St. John's
- All EPCM work will be done in NL

Evaluation Findings

SNC – Strengths

- Heavy commitment to the Project (i.e. from 5 to 43 Key Personnel)
- Top quartile H&S performance
- World class senior staff proposed – “A-Team”
- All resources from employee base – demonstrates resource depth
- Current cold climate Canadian EPCM hydroelectric and TL experience
- Commitment to perform engineering for all components in St. John’s
- Sufficiently demonstrated EPCM competence
- Demonstrated construction management capability
- Strong technical expertise
- Established Nalcor and LCP knowledge base
- Organizational design robust for all Components

Evaluation Findings

SNC – Areas of Concern & Mitigation

Areas of Concern	Mitigation
Clarity on which division leads the Project – SNC Montreal or SNC St. John's	• Formalize Steering Committee – Montreal reps • Communication at Executive level • Establish a Project specific office in St. John's • Reaffirm at Project kick-off meeting
Change Management	• Concerns addressed in agreement articles (definition, criteria, etc.) • Proactive project control by Nalcor • Designated Nalcor Contract Administrator for this Agreement
Lack of clarity related to T's & C's for individuals to work in St. John's	• Establish Project Office in St. John's at beginning of mobilization • Establish Project relocation policies inline with industry norms (reimbursable)
Inconsistent knowledge and usage of the SNC "PM+" system between divisions	• Management Plans to be developed by SNC during mobilization phase • EPCM and Nalcor Project Services Manager to come to full alignment • Ensure appropriate training during mob period
Lack of pro-active approach to environmental management	• Nalcor to formally outline its expectations during mobilization phase • EPCM to demonstrate its ability to meet
Advanced age of some Key Personnel	• Develop succession plan for Key Personnel • Manage competency transfer within the SNC organization

Evaluation Findings

Hatch Attributes

Strengths

- Mostly world class senior staff proposed
- Personnel acquired from strong, experienced companies (SMEC, S&L, SMi Group)
- Strong CM personnel from SMi Group (James Bay, Eastmain)
- Significant cold climate and hydro electric experience
- Sufficiently demonstrated EPCM competence
- Strong technical expertise
- Established Nalcor and LCP knowledge
- Strong emphasis on working closely with Owner's team

Areas of Concern

- *Hatch Alliance* concept - significant key personnel seconded from other companies – no commercial agreements in place "What happens if things get into trouble ??"
- Alliance members have not all worked together before
- Limited Hatch involvement in certain Components
- Shallow Hatch-specific personnel resource base - inability to date to fill key roles
- Engineering for HVdc work to be fully performed in Winnipeg, PM in Mississauga
- Inconsistent knowledge and usage of the Hatch "iPas" system by Alliance members
- Lack of pro-active approach to environmental management
- Advanced age of some Key Personnel
- Change management

Testing Alignment with Strategic Risks

Strategic Risk	Management Strategy – Consider when selecting EPCM
Labor productivity and performance aligned with expectations.	• Establishing a benefit / reward relationship with the EPCM consultant and construction contractors that entices them to put the "A-team" on the job. • Consider appropriate incentives for the EPCM consultant that are strategically aligned with achieving design and construction readiness outcomes that support increased worker productivity.
Achieving a Zero Harm – Nobody Gets Hurt mindset in a transient construction workforce.	• Early and proactive program to promote and secure commitment to best practices. • Work with EPCM to develop and implement a behavioural based safety program across the Project. • Engaging and retaining contractors who are leaders in safety performance and have demonstrated the ability to proactively manage all aspects of HSE performance on remote worksites. • Recognizing HSE performance is imperative and start embedding an HSE culture early in the project. It all starts with management's commitment to safety. • Maintaining team awareness and establish strong & open communication channel on all aspects of HSE.
Attracting a capable EPCM contractor who has a strong background in all engineering, procurement and construction management activities for large hydro and transmission projects.	• Developing an innovative contracting strategy to make project attractive to contractors with risk/benefit balance. • Implement a rigorous EPCM selection process. • Taking early and aggressive action to secure required engineering competencies and resources. • Scheduling sufficient time for engineering completion prior to start of construction. • Implementing a project-wide Quality Management System and embed QA requirements in all contracts.

Alignment with Drivers of Dec '09

Driver	Alignment Check: SNC Recommendation
High FEL	• SNC alignment with mobilization and phased approach maximizes FEL and minimizes change
Cost and Schedule Predictability	• SNC alignment with phased approach will optimize cost and schedule predictability
Alignment with Financial Strategy	• SNC name brings lender comfort
Optimal Allocation of Risk	• SNC has accepted a benchmarked level of risk or higher including construction risk alignment
Contractor Availability and Capability	• SNC has the capacity within their organization and has provided a strong team
Alignment with Provincial Policies and IBA	• SNC has the larger local presence and aboriginal knowledge of the two finalist
Appropriate Degree of Project Management by Nalcor	• SNC are culturally aligned with Nalcor oversight

Fixed Fee Overview

Component	Bidder 1	Bidder 2
1 - MF Hydro Development	$14,840,700	$82,217,000
3 - HVdc Specialties	$5,996,532	$16,663,000
4A - OH Transmission - Gull Island to Soldiers Pond	$9,633,422	$22,270,000
4B - OH Transmission - Muskrat Falls to Gull Island	$2,055,819	$3,280,000
4C - OH Transmission - Gull Island to Churchill Falls	$3,997,118	$5,945,000
MF Scenario A (Discounted Fee)	**$33,121,126**	**$120,287,500**
Cost per manhour	**$13.32**	**$50.78**
MF Scenario A (Normalized Hours)	**$34,322,237**	**$130,847,466**