

**From:** [jamesmeaney@nalcenergy.com](mailto:jamesmeaney@nalcenergy.com)  
**To:** [Gilbert Bennett](#); [Lance Clarke](#); [Paul Harrington](#); [Jason Kean](#); [Derrick Sturge](#); [Rob Hull](#); [Auburn Warren](#)  
**Subject:** Fw: MWH Comments to Canada on Capital Costs  
**Date:** Thursday, November 21, 2013 11:26:50 AM

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See feedback below from Alison....she also indicated she herself will slip some of these points into the IE discussion this afternoon...

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----- Forwarded by James Meaney/NLHydro on 11/21/2013 11:22 AM -----

From: "Manzer, Alison"  
To: "[JamesMeaney@nalcenergy.com](mailto:JamesMeaney@nalcenergy.com)"  
Date: 11/21/2013 11:18 AM  
Subject: RE: MWH Comments to Canada on Capital Costs [IWOV-Legal.FID1640195]

These are good points to raise on the call. I will also find a way to recap - on the timeliness issue - two things you can consider - 1. Noting that that of course will be the go forward when info will flow without that need that the need this time was the equity payment requirement only or whatever 2. Canada is concerned to be assured that NL is fully aware of this given the equity - that is of the cost increases there is a perception of run away increases and maybe some elements of withholding that - nip that in the bud I say

Alison Manzer  
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From: [JamesMeaney@nalcenergy.com](mailto:JamesMeaney@nalcenergy.com) [<mailto:JamesMeaney@nalcenergy.com>]  
Sent: Thursday, November 21, 2013 9:43 AM  
To: Manzer, Alison  
Subject: Re: MWH Comments to Canada on Capital Costs

Hi Alison

Appreciate the heads up on this. I would offer the following for your and Canada's consideration:  
The commentary below from MWH does not appear to reflect the \$6.5b capital cost / material contracts update provided Tuesday evening. I would suggest this needs to be taken into consideration.

I am quite surprised to hear there is a view this costing info was not "well done" given that (i) I got a note from Pyper (which Canada/MWH/CBB were included on) indicating it was "very useful" and (ii) it provides significant detail on the 17 material contracts that represent 70%+ of the total value of procured contracts. Whose opinion is that?

I acknowledge that we would have liked to get this updated cost information to Canada/CBB/BF/MWH sooner, but as I had mentioned on our call earlier this week, it had to go through a number of levels of senior approval before being released. Given the sensitivities around capital costs, I'm sure folks can appreciate the issue.

I would suggest it might be helpful for BF to assist MWH with their review of the updated proforma financials, etc given the modeling session that was conducted in Toronto last Friday and the updated models that were recently made available via the data room. They seem to have a good grasp of the information.

We will certainly take the other heads up you provided on Schedule into consideration for the discussion this afternoon. I would suggest MWH may need to revisit some of their views below on costs and advise Canada accordingly.

Thanks  
Jim

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From: "Manzer, Alison"  
To: "jamesmeaney@nalcorenergy.com"  
Date: 11/21/2013 09:38 AM  
Subject: FW: LOWER CHURCHILL; NALCOR; RESPONSE TO GOVERNMENT QUESTIONS OF NOVEMBER 12, 2013; QUESTIONS 5. CONTINGENCY AND QUESTION 6. COSTS [IWVOV-Legal.FID1640195]

Sending you two emails to make sure you know about them. Quite frankly this is a shit storm and a no can close at this stage. Canada is confused and caught - who is not delivering to whom etc. The costing info has created a big issue - late and apparently not well done - causes real concerns for timely delivery during the deal and accuracy - NOT good at all. You will need to ensure what is needed gets there, it is timely and accurate, you work with them in the report revisions, you convince Canada you are turning all over and correctly, that you can give up to date and correct scheduling and costing etc. Right now the perception is you cannot and have not. Have you thought of pulling SNC into this to comment opine whatever they do have credibility and could help in this exercise remember it is also an indictment of them right now.

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From: Reynold Hokenson [mailto:Reynold.A.Hokenson@mwhglobal.com]  
Sent: Wednesday, November 20, 2013 10:22 PM  
To: Krupski, Joseph (Joseph.Krupski@NRCan-RNCan.gc.ca)  
Cc: Nalcor Energy IE & O&M; Howard Lee; Nikolay Argirov; Celeste Christensen; Mary Edwards; Nalcor Energy IE & O&M; Manzer, Alison; Newman, Charles; Abudulai, Suhuyini; James Loucks; Richard Howell  
Subject: FW: LOWER CHURCHILL; NALCOR; RESPONSE TO GOVERNMENT QUESTIONS OF NOVEMBER 12, 2013; QUESTIONS 5. CONTINGENCY AND QUESTION 6. COSTS

Hello Joseph,

Please find our response to Government's Questions (comments) 5. and 6. below.

5 Contingency: We would like more clarity around the reporting comments on contingency, we would like to have a better view of pressures you see being placed on the contingency, a more directed focus on the adequacy of the contingency based upon the cost analysis, outlined subsequently; we believe that the contingency discussion should be more focused to the project than it is presently (generally just a comment on industry usual rather than a specific issue identification) identifying stress points and expected scope of calls on contingency.

MWH RESPONSE: Yes, we can be more specific and pinpoint the project specific drivers that we believe will consume contingency during project execution if helpful. Since the entire project contingency has already been spent at this date, a new contingency allocation requires authorization from our perspective as one of our first observations. We can elaborate more on this factor in our IE Report, if you desire for us to do so.

6. Costs: We need to complete a reconciliation of the costs as they have come together against DG3, and are looking for direct reporting input to do so from Nalcor.

MWH RESPONSE: Of note, our Table 5-6 in the Draft November 15, 2013, IE's Report requires the cost numbers to be factored up to include contingency and escalation to ensure an apples-to-apples comparison. Since Nalcor has agreed to bundle the costs to prevent inadvertent divulgement of the actual bid amounts since bidding on other work will be on going for some time, they should also ensure that cost numbers can be compared on the same basis.

We are aware that the delivery of information is with Nalcor at this point in time, and are aware of the cost overrun identified for the Astaldi contract. We are also aware that there is a modeling exercise coming up shortly (scheduled for Friday I believe), which may be useful for you to participate by phone/webex. It is important to understand where the costs may be heading, and a reconciliation to DG3, and comment as to the reasonableness of that reconciliation, is desired.

MWH RESPONSE: Yes, we also appreciate the importance of trending the early information to better gauge deviation. We were not able to attend the phone/webex conversation but would like to review any of the germane notes that were taken of key points that were being discussed/considered. We also call

the Government's attention to the requirement, following the AACEI's protocol to provide a new, updated cost estimate and schedule at the time of financial close as well as a follow-up cost estimate at approximately the mid-point of the construction of the projects. We have included this reminder as a recommendation in Section 10 to ensure that it is provided to Government.

We are hoping that you can confirm that you are reviewing the costs on this basis and report accordingly. These views should be considered in light of the fact that this is a project which has a full Province of Newfoundland equity backing, that is the Province of Newfoundland must pay all costs to completion and commissioning of this project, including any overruns, and that the revenue agreements then cover all ongoing costs including resulting debt, this project is somewhat different in its cost analysis the Newfoundland equity funding commitment easing concerns regarding over runs.

MWH RESPONSE: We will be reviewing the Government's comments and trust that they will be in alignment with the scope of work included in our IE Services Agreement. We will provide some additional comments on costs as noted above in our IE's Report. We are aware of how the equity backing is being supported, but do not consider it as essential input in terms of how the Independent Engineer conveys opinions regarding cost matters. Our IE 's Report is intended to review all inputs to the project's financial pro forma and comment on their accuracy to ensure proper analysis and disclosure.

Regards,  
Rey  
November 20, 2013

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