


**From:** jamesmeaney@nalcorenergy.com  
**Sent:** Thursday, January 23, 2014 10:46 AM  
**To:** Newman, Charles  
**Subject:** Re: Responses to MWH Comments on Construction Reports Jan 20, 2014 [IWOV-Legal.FID1816818]

Let's discuss this tomorrow

	<p><b>James Meaney, CFA</b> <b>General Manager Finance</b> <b>Nalcor Energy - Lower Churchill Project</b> t. 709 737-4860 c. 709 727-5283 f. 709 737-1901 e. <a href="mailto:JamesMeaney@nalcorenergy.com">JamesMeaney@nalcorenergy.com</a> w. <a href="http://nalcorenergy.com">nalcorenergy.com</a> 1.888.576.5454</p>
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You owe it to yourself, and your family, to make it home safely every day. What have you done today so that nobody gets hurt?


"Newman, Charles" ---01/22/2014 07:59:57 PM---Jim: FYI - more from Rey. Are you able to accommodate MWH in this regard? If you feel that it will

**From:** "Newman, Charles" <CNewman@CasselsBrock.com>  
**To:** James Meaney <JamesMeaney@nalcorenergy.com>  
**Date:** 01/22/2014 07:59 PM  
**Subject:** Responses to MWH Comments on Construction Reports Jan 20, 2014 [IWOV-Legal.FID1816818]

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**Jim:**  
  
FYI – more from Rey. Are you able to accommodate MWH in this regard? If you feel that it will be problematic, I suggest it get added to the list for Friday.

Best regards,

	<b>Charles Newman</b> Direct: 416 860 6603 • Fax: 416 644 9370 • <a href="mailto:cnewman@casselsbrock.com">cnewman@casselsbrock.com</a> 2100 Scotia Plaza, 40 King Street West, Toronto, Ontario, Canada M5H 3C2 <a href="http://www.casselsbrock.com">www.casselsbrock.com</a>

**From:** Reynold Hokenson [<mailto:Reynold.A.Hokenson@mwhglobal.com>]  
**Sent:** Wednesday, January 22, 2014 12:06 PM  
**To:** Newman, Charles; Kapoor, Anoop ([Anoop.Kapoor@NRCan-RNCan.gc.ca](mailto:Anoop.Kapoor@NRCan-RNCan.gc.ca)); Krupski, Joseph ([Joseph.Krupski@NRCan-RNCan.gc.ca](mailto:Joseph.Krupski@NRCan-RNCan.gc.ca))  
**Cc:** Celeste Christensen; Nikolay Argirov; Mary Edwards; Howard Lee  
**Subject:** RE: Responses to MWH Comments on Construction Reports Jan 20, 2014 [IWOV-Legal.FID1816818]

Hi Charles,

Sorry, but rounding should be listed as a separate line item in our opinion, then. If Nalcor cannot figure a way to correct this re-occurring issue before the IE has to look at it ( we understand this issue but do not like to sign a certificate with a sum that does not add up properly), I suggest to use a method what is generally used on international transactions and reports to cover the many, many items that have this 'issue' too—usually involving currency exchanges/timing---use the separate line item to round to achieve the correct addition.

Regards,

Rey


January 22, 2014

**From:** Newman, Charles [<mailto:CNewman@CasselsBrock.com>]  
**Sent:** Wednesday, January 22, 2014 8:53 AM  
**To:** Reynold Hokenson  
**Cc:** Celeste Christensen; Nikolay Argirov; Mary Edwards  
**Subject:** FW: Responses to MWH Comments on Construction Reports Jan 20, 2014 [IWOV-Legal.FID1816818]

Rey:

FYI, pls see Jim's responses below. We are following up with Canada re instructions on what contracts they want reviewed.

Best regards,

	<b>Charles Newman</b> Direct: 416 860 6603 • Fax: 416 644 9370 • <a href="mailto:cnewman@casselsbrock.com">cnewman@casselsbrock.com</a> 2100 Scotia Plaza, 40 King Street West, Toronto, Ontario, Canada M5H 3C2 <a href="http://www.casselsbrock.com">www.casselsbrock.com</a>


**From:** [JamesMeaney@nalcorenergy.com](mailto:JamesMeaney@nalcorenergy.com) [<mailto:JamesMeaney@nalcorenergy.com>]  
**Sent:** Wednesday, January 22, 2014 10:06 AM  
**To:** Newman, Charles  
**Cc:** [EdBush@lowerchurchillproject.ca](mailto:EdBush@lowerchurchillproject.ca); [PHarrington@lowerchurchillproject.ca](mailto:PHarrington@lowerchurchillproject.ca); [GeraldCahill@lowerchurchillproject.ca](mailto:GeraldCahill@lowerchurchillproject.ca); Kapoor, Anoop; Krupski, Joseph; Manzer, Alison  
**Subject:** Responses to MWH Comments on Construction Reports Jan 20, 2014

Hi Charles

Please find below in red responses to MWH's inquiries on the recently issued construction reports. By all means let us know if there are any additional questions.

Regards

Jim

 <p><b>nalcor</b> energy LOWER CHURCHILL PROJECT</p>	<p><b>James Meaney, CFA</b>  <b>General Manager Finance</b>  <b>Nalcor Energy - Lower Churchill Project</b>  t. 709 737-4860 c. 709 727-5283 f. 709  737-1901  e. <a href="mailto:JamesMeaney@nalcorenergy.com">JamesMeaney@nalcorenergy.com</a>  w. <a href="http://nalcorenergy.com">nalcorenergy.com</a>  <b>1.888.576.5454</b></p>
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You owe it to yourself, and your family, to make it home safely every day. What have you done today so that nobody gets hurt?

**From:** Newman, Charles

**Sent:** Tuesday, January 21, 2014 3:35 PM

**To:** James Meaney


**Cc:** Manzer, Alison

**Subject:** LOWER CHRUCHILL; NALCOR; PHASE 2; JANUARY 2014 DRAW; IE'S PRELIMINARY OBSERVATION  
Legal.FID1816818]

Jim:

Pls see Rey's comments below about the January construction report. Can you pls speak to your team & see whether these items can be addressed? I'm available to discuss this further if need be.

Thanks,

 <p><b>CASSELS BROCK</b> LAWYERS</p>	<p><b>Charles Newman</b>  Direct: 416 860 6603 • Fax: 416 644 9370 • <a href="mailto:cnewman@casselsbrock.com">cnewman@casselsbrock.com</a>  2100 Scotia Plaza, 40 King Street West, Toronto, Ontario, Canada M5H 3C2  <a href="http://www.casselsbrock.com">www.casselsbrock.com</a></p>
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**From:** Reynold Hokenson [<mailto:Reynold.A.Hokenson@mwhglobal.com>]

**Sent:** Tuesday, January 21, 2014 11:58 AM

**To:** Manzer, Alison; Kapoor, Anoop ([Anoop.Kapoor@NRCan-RNCan.gc.ca](mailto:Anoop.Kapoor@NRCan-RNCan.gc.ca)); Krupski, Joseph ([Joseph.Krupski@NRCan-RNCan.gc.ca](mailto:Joseph.Krupski@NRCan-RNCan.gc.ca))

**Cc:** Abudulai, Suhuyini; Newman, Charles; Nalcor Energy IE & O&M; Celeste Christensen; Mary Edwards; Nikolay Argirov

**Subject:** LOWER CHRUCHILL; NALCOR; PHASE 2; JANUARY 2014 DRAW; IE'S PRELIMINARY OBSERVATIONS OF  
NALCOR'S CONSRUCTION REPORTS

Please find enclosed some preliminary comments pertaining to the second draw request for consideration as given below.

MWH is still waiting for a response to our email of January 15<sup>th</sup>, which is a follow-up to comments made during a telephone conversation with Nalcor. If we are to be effective, we will need to be supplied the contractor's construction reports (at least the executive summaries) to use in our due diligence.

**OBSERVATIONS: CONSTRUCTION REPORTS; 20- JANUARY -2014****LIL PROJECT FINANCE AGREEMENT**

1. Schedule "A"---QC was not performed; note totals do not add ***This is a rounding issue within the XLS spreadsheet and is not material.***
2. Schedule "B"—QC was not performed; one total does not add ***See item 1.***
3. Feasibility Engineering values are being adjusted to place into correct accounts; feasibility engineering should have been concluded many months ago; adjustments are still being looked at and it is expected that there will be other adjustments for the next draw (the third draw) ***This is explained in the analysis - feasibility engineering includes tasks that are still ongoing. The adjustments in this report were a result of a 2013 year end reconciliation and are not expected as normal course of reporting.***
4. Schedule "B" indicates that a very minor increase in Procurement & Construction is anticipated by Nalcor—about 0.47% ***This was explained in the notes with Schedule C.***
5. Markup sheets are attached of the observations noted.

**MUSKRAT/LTA PROJECT FINANCE AGREEMENT**

1. Schedule "A", Part II-Hard Costs for the LTA. Page 6---QC was not performed; note each of the totals is off. ***This is a rounding issue within the spreadsheet and is not material. Note as per the PFA the Project Budget is \$720,322 (rounded to the nearest \$1,000).***
2. Schedule "B", Part I-Muskrat Cost to Complete, page 7---QC was not performed; note last column is off. ***See item 1.***
3. Part II—Labrador Transco Cost to Complete, Schedule 'B', page 8---QC was not performed, all column totals are incorrect. ***See item 1.***
4. Schedule "C", Part II-Labrador Transco Cost Variances, page 9---QC was not performed ***See item 1.***
5. Schedule "E", Part I-Muskrat Material Disputes, page 11. There still is no resolution of the Request for Equitable Adjustment (Claim). There is no acknowledgement of what Nalcor believes will occur as to the cost increasing for this contract. ***Nalcor has reviewed the REA and carried \$6,250,000 as an estimated value for the REA. It does not impact on the FFC.***
6. Construction Narrative, found on page 13.
  - a. Construction of the new 1500 person construction camp is still continuing; it appears that the information furnished to the IE just before the issuance of the Interim IE's Report was not correct. What is the total capacity of the camp as of December 31<sup>st</sup>? ***The IE's comment is not clear. There was a 300 bed initial camp that was completed in 2013.***
  - b. CH0006 construction is still occurring (during December 2013) to correct 'minor deficiencies'. What are these minor deficiencies—no Contractor's Executive Summary section of its report was furnished as we agreed to be supplied with the draw documents? ***The minor deficiencies do not have a bearing on the start of the next phase of the work. Nalcor is in the process of releasing complete contractor's reports to the IE and these reports will contain additional details as part of an ongoing communication effort with Canada and MWH.***
  - c. Does Government desire that MWH review CH0032 and SH0018? CH0032 involves the Supply and Install Powerhouse Hydro-Mechanical Equipment would be the only contract that MWH would see a need to become familiar with, in our opinion. ***Response to be provided by Canada.***
7. Construction narrative for Part II-LTA Construction Progress, found on Page 15.
  - a. A brief discussion of contract CT0341 (Right of Way Clearing for the AC Transmission Lines) is covered but the summary fails to note the following:
    - i. Was the actual cost of the contract impacted (realizing that the labor and material bond covers the shortages, if there will be any, as Nalcor believes)? ***The original contract was valued at \$29.7 million of which \$6.0 million was completed at termination. The replacement contract was awarded for \$45.0 million. Nalcor is pursuing recovery of the differential through the original contractors***

***surety and does not believe there will be any impact on the FFC as a result of this change.***

ii. What is the opinion of the Government's legal advisors as to Nalcor's opinion that there will be no increase in the contract amount? ***Response to be provided by Canada.***

iii. What were the reasons that Nalcor terminated the first contractor; this matter was never discussed in any meeting where the IE was present? ***The contractor was terminated for failure to remedy a default in their overall project performance.***

8. Markup sheets are attached of the observations noted.

Regards,  
Rey  
January 21, 2014

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