

Natural Resources

April 15, 2014

Release of Independent Engineer's Report

Key Messages

- Today, the independent engineer's report, prepared for the Government of Canada in November 2013, was released by Nalcor. Permission for the release was given by both the Government of Canada and the independent engineer, MWH.
- The independent engineer's report and their findings were reviewed by Canada and met their requirements for the federal loan guarantee which led to the successful financing of the project.
- The independent engineer has provided a thorough review and has validated the work completed to date on the Muskrat Falls Project.
- We are pleased with the overall findings of the report. There are many areas of the project the independent engineer noted were of high quality work and execution. All aspects of the project and their conclusions and recommendations support the project and how the project is being managed.
- The independent engineer also reviewed in detail the planned North Spur remediation measures developed by the project team and found those measures to be in accordance with currently accepted geotechnical design practices and will effectively stabilize the North Spur.
- MWH noted some areas for consideration, such as cost and schedule pressures. The Provincial Government's oversight committee will review these areas and will continue to monitor the project's costs and schedule throughout the construction phase.
- The independent engineer will continue to provide oversight to the Muskrat Falls Project throughout the construction phase.

- The Muskrat Falls Project belongs to the people of Newfoundland and Labrador. It is imperative that appropriate oversight be given to it. From conception, to engineering to sanction we have given it several layers of oversight through Nalcor, the Public Utilities Board, MHI, and the Government of Canada. We will continue to ensure appropriate oversight be given to this project into the construction phase.

Question and Answers

Question: Why did it take so long to release this report to the public?

Answer: The Provincial Government has said all along that the independent engineer's report would be released to the public once the report had been thoroughly reviewed and agreed to by the Government of Canada. This has now been completed.

Question: Who within the Provincial Government has reviewed the independent engineer's report?

Answer: Since receiving the independent engineer's report, the Minister and senior officials within the Department of Natural Resources have reviewed the report. Subsequent reports prepared by the independent engineer during the construction phase of the project will be reviewed by the Provincial Government's oversight committee.

Question: Why has the report released today been redacted?

Answer: The independent engineer's report includes commercially sensitive information regarding the larger contracts for the project that have not yet been negotiated and let. Once these contracts have been finalized, further details may be provided.

Question: Why was the November 29 report redacted? I understand there is an earlier working copy as well as a later December version. Why weren't those versions released?

Answer: The November 29 version was the one that the Government of Canada replied upon for the federal loan guarantee and was the logical report to release to the public. Other agreements and materials related to

the federal loan guarantee have already been posted on the Muskrat Falls website.

Question: The independent engineer's report said the DG3 numbers should have added more contingency costs. Will this lead to inevitable cost overruns?

Answer: These are still early days on the project. Negotiations for some of the larger contracts have to be finalized before there can be a complete picture on costs. An update on project costs will be provided as soon as this process is completed.

When project costs are examined capital, operating, and financing are considered. To date, some of these elements are lower than budget, some are similar, and some are higher. Right now, on materials/supplies, this is generally coming in as expected. For the unit rate contracts, there are some upward cost pressures. This is no surprise as there are pressures on capital cost being experienced throughout the province and country. On the financing side, there is now certainty and more money has been saved than budgeted.

The Provincial Government's oversight committee will continue to monitor the project's costs throughout the construction phase.

Question: The report also says that although the project schedule is in the range, it is in the lower end of the range. Is there room for improvement?

Answer: We were pleased to see that the independent engineer was satisfied with the schedule for the project. The project is on track even though it is in a challenging Northern environment.

The Provincial Government's oversight committee will continue to monitor the project's schedule throughout the construction phase.

Question: Minister has said that in November there was a draft or interim report. The federal government language seems to indicate a finalized document. If they were "satisfied" with it, then why would it need to be further modified?

Answer: The Government of Canada was satisfied with the Independent Engineer's report to meet the conditions of the federal loan guarantee. This report meets the standard expected of a lender in commercial transactions.

Question: The report was provided to Nalcor in November. So why was the report not provided by Nalcor to the Provincial Government?

Answer: In November 2013, Nalcor received a working draft of the independent engineer's report. They provided comments regarding this draft to the Government of Canada.

On Friday, February 21, Nalcor received the interim report of the independent engineer called: *Interim Independent Engineer's Report Lower Churchill Project*, dated November 29, 2013. This interim report had satisfied the requirements of the federal loan guarantee for the Government of Canada. This report was forwarded by Nalcor to the Provincial Government.

In late February, Nalcor received a new version of the report dated December 30, 2013. This report was also forwarded to the Provincial Government.