

From: jamesmeaney@lowerchurchillproject.ca
Sent: Wednesday, December 17, 2014 5:00 PM
To: pharrington@lowerchurchillproject.ca
Cc: edbush@lowerchurchillproject.ca;
georgechehab@lowerchurchillproject.ca; gbennett@nalcenergy.com
Subject: Re: Cost Variance Reponse to OC

Got a few minor points from Gilbert that I will incorporate and send to Craig

James Meaney
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Paul Harrington---12/17/2014 04:43:53 PM---Jim looks good to me

From: Paul Harrington/NLHydro
To: James Meaney/NLHydro@NLHYDRO,
Cc: Ed Bush/NLHydro@NLHydro, George Chehab/LCP/NLHydro@NLHydro, Gilbert Bennett/NLHydro@NLHydro
Date: 12/17/2014 04:43 PM
Subject: Re: Cost Variance Reponse to OC

Jim

looks good to me

Paul Harrington
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James Meaney---12/17/2014 04:03:48 PM---Here is what I'm proposing to send to Craig. The re-grounding them on incurred costs was based on a

From: James Meaney/NLHydro

To: Ed Bush/NLHydro@NLHYDRO, George Chehab/LCP/NLHydro@NLHYDRO, Paul Harrington/NLHydro@NLHydro, Gilbert Bennett/NLHydro@NLHydro,

Date: 12/17/2014 04:03 PM

Subject: Cost Variance Reponse to OC

Here is what I'm proposing to send to Craig. The re-grounding them on incurred costs was based on a discussion Ed and I just had. Let me know if you have any questions or proposed changes.

=====

Hi Craig

With respect to LIL, I was slightly mistaken on the primary cost driver. The Transition Compounds had the primary impact on progress. With respect to cost variances, the HVdc transmission line construction represents \$14m or 67% of the \$21m variance. Earthworks also accounts for \$5m.

With respect to LTA, the HVac Transmission line construction represents \$11m or 73% of the \$15m variance. Earthworks at MF/CF sites also accounts for \$3m.

With respect to MF, there is no single activity that accounts for any material amount of the variance.

To provide some context on MF, as well as the other components, I think it would be helpful to get re-grounded in what incurred costs represent. Each month it is determined based on (i) invoices that have been paid (known amount), (ii) invoices in hand that are yet to be paid (known amount), and (iii) an estimate of progress/costs to be incurred in the last 5 days of the month as the cut-off for contractor submissions is the 25th.

In simplistic terms, back in June when we re-baselined to \$6.99 billion we looked at incurred costs up to that point and the estimated Cost to Complete over the remaining life of the Project and set a monthly incurred cost series that became the "plan" we measure against going forward. This was done at the package level, then rolled up to the 3 project components, and then finally the total Project. Then you carry forward to the

end of the current reporting period and measure TTD incurred costs to plan. Given that there's a degree of estimated progress/cost in both your plan and incurred figures, I'm sure you can appreciate there's going to be some minor variation within a reasonable level of estimating accuracy. So when you look at a \$5m or 0.5% variation in MF on over \$1 billion in incurred costs, or even a 5-6% variance in LIL and LTA, we view them as being normal planning tolerances for a project this magnitude and believe that should be the way it's positioned to the public in the Oversight Committee report. Obviously if the variances are much more significant we'd appreciate the desire to provide a more detailed variance analysis and explanation.

Hopefully you find this helpful. By all means let us know if you have any additional questions.

Regards

Jim

James Meaney

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----- Forwarded by James Meaney/NLHydro on 12/17/2014 03:18 PM -----

From: James Meaney/NLHydro

To: Ed Bush/NLHydro@NLHYDRO, George Chehab/LCP/NLHydro@NLHYDRO,

Date: 12/17/2014 01:46 PM

Subject: Oversight Committee Request

Ed/George

Paul and I just got off the phone with OC folks. Hoping you can help on some TTD Sept 2014 incurred cost figures:

- 1) MF - Incurred costs are \$5m above plan of \$1,065m. Is there any specific activities we can attribute this variance to or can we say cost variances were less than \$xxx for any single activity. We questioned the materiality of this, but they are adamant for some reason.
- 2) LIL - Incurred costs are \$21m above plan of \$410m. We provided text below. Can you advise what's the \$ amount associated with Transition Compounds and if there are any other activities driving a significant portion of the \$21m.

3) LTA - Incurred costs are \$15m below plan of \$264m. Similar question as LIL. Can you advise what's the \$ amount associated with AC trx construction and if there are any other activities driving a significant portion of the \$15m.

Need this info ASAP.

Thanks

Jim

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----- Forwarded by James Meaney/NLHydro on 12/17/2014 01:36 PM -----

From: James Meaney/NLHydro

To: cmartin@gov.nl.ca,

Cc: Paul Harrington/NLHydro@NLHydro, Karen O'Neill/NLHydro@NLHydro, Ed Bush/NLHydro@NLHYDRO

Date: 12/16/2014 04:59 PM

Subject: comments

Hi Craig

Pg 2 - \$1.3 billion represents Interest During Construction (IDC)/Allowance for Funds Used During Construction (AFUDC) plus other financing related amounts. It is not just IDC.

10 - "...lower the project cost and reduce risk **by allowing more time to complete stabilization work....**". The reason why cost/risk will be lowered already there. In response #1 on pg 27 you should update the 2nd sentence to also reflect this, ie. "...lower the project cost and reduce risk **by allowing the contractor more time to complete stabilization work.**" instead of "...**and allowing...**". I think that may have been a typo on our part.

16 - With respect to LIL being ahead of plan on cost and progress, explanation as follows ".....the **cost and schedule variance** related primarily to work on the SOBI, particularly the Transition Compounds which had progressed ahead of schedule." You can then remove the next sentence.

17 - With respect to LTA being ahead of plan on progress and below plan on cost, explanation as follows
"...the schedule variance related primarily to work at the Churchill Falls Switchyard which was progressing ahead of schedule. **The cost variance related primarily to lower than planned expenditures in the current year for HVac transmission line construction.**"

30 - While I believe the progress reports you reviewed group "Powerhouse and Intake and Spillway **Gates**" together, it might be best to remove the reference to "Gates". The Powerhouse, Intake & Spillway is contract CH0007 with Astaldi, however, the Gates is actually a separate contract CH0032 with Andritz. Minor point of clarification.

Regards

Jim

James Meaney

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