



Hydro Place, 500 Columbus Drive,
P.O. Box 12800, St. John's, NL
Canada A1B 0C9
t. 709.737.1833 or 1.888.576.5454
f. 709.737.1985

Rec. No.: L010-S011-200-170331-00095

August 07, 2011

SNC-Lavalin Inc.
272 Torbay Road
St. John's, NL A1A 4E1

Attention: Mr. Normand Bechard

**Subject: Lower Churchill Phase 1 Development
Agreement LC-G-002
Engineering, Procurement and Construction Management (EPCM) Services**

SLI – Area Management Execution Approach

Dear Normand:

SLI's "Proposal for EPCM Services for the Lower Churchill Project" clearly and extensively expressed the intent to employ the Area Management execution concept in the delivery of EPCM Services for the Lower Churchill Project. This commitment was documented in the following documents and presentations:

- 1 – "Proposal for EPCM Services for the Lower Churchill Project" (see excerpts in Attachment 1 herein);
- 2- Presentation of SLI's proposal to Nalcor on 07-Oct-2010 (see presentation excerpts in Attachment 2 herein);
- 3 – Construction Management-specific presentation to Nalcor on 29 Oct. 2010 (see excerpts in Attachment 3 herein). At that session, it was also recommended by SLI that Nalcor employ Area Manager "counterparties" aligned with the SLI Area organization.
- 4 – Presentation in EPCM Kickoff Meeting on 30 / 31 March 2010 (see excerpts in Attachment 4 herein);
- 5 – SLI Organization Chart dated 24 June 2011 (see excerpts in Attachment 5 herein);
- 6 – Diagram presented in Stage 2 / PCS Baseline Review Workshop 25-26 July 2011 (see Attachment 6 herein).

The following points summarize the above:



Hydro Place, 500 Columbus Drive.
P.O. Box 12800, St. John's, NL
Canada A1B 0C9
t. 709.737.1833 or 1.888.576.5454
f. 709.737.1985

a - SLI's Area Management approach to delivering the Lower Churchill Project EPCM Services was intensively documented and presented both during the proposal stage as well as in meetings post-Agreement award.

b – SLI's summary, as presented to Nalcor, of the Area Manager concept is that Area Managers would have “Cradle to Grave” responsibility for the overall **delivery** of the respective Area of the Lower Churchill Project. Area Managers have cost and schedule accountability and have the authority to get, from the respective Project Manager for the Component, everything they want / need for **successful scope delivery**. The Area Managers are responsible to ensure that all facets of the Services including engineering design, health and safety aspects, procurement activities, construction and completions etc... are delivered. In addition, the Area Manager would be the driver for the constructability processes. The Area Managers are the leaders.

c – Appreciation for SLI's Area Management delivery approach was a very important factor in Nalcor's selection of SLI to provide the EPCM Services for the LCP - **Nalcor fully supports SLI's Area Management approach**. The model is considered to be key for a mega-project such as the LCP.

d - It is Nalcor's requirement and expectation that the Area Management approach be fully championed by the SLI Component Project Managers, and that the approach be fully implemented and embraced across SLI's LCP EPCM organization.

e – Effective implementation of the Area execution approach includes the required reporting that the Area Managers need to perform their role. This is paramount.

Nalcor's Project Control Expectations

In line with SLI's Area Management execution approach, Nalcor has developed its overall Project Control plan based on the Area execution basis. Nalcor's overall Project Control plan was presented to SLI in the Kickoff Meetings held 30 and 31 March 2011 (see excerpt in Attachment 7 herein). A tremendous amount of effort has been expended by Nalcor to develop the Project Control plan and the associated coding to facilitate its implementation. All of the information and requirements have been provided to SLI and, until very recently, it received full support and alignment from SLI.

Stage 2 / PCS Baseline Review Workshop 25-26 July 2011

In the “Stage 2 / PCS Baseline Review Workshop” on 25 / 26 July 2011, a discussion ensued regarding the Area reporting requirements. We were surprised that, given the commitments as described above, there was some pushback from SLI as to whether SLI would provide the necessary Area based reporting. It was, however, finally agreed in that meeting that the Area based reporting would, in fact, be performed. The benefit of such reporting became very obvious.



Hydro Place, 500 Columbus Drive.
P.O. Box 12800, St. John's, NL
Canada A1B 0C9
t. 709.737.1833 or 1.888.576.5454
f. 709.737.1985

In the Minutes of Meeting from the noted workshop (see excerpts in Attachment 8 herein, item 10.4 notes *“SLI to review if it is possible to separate the baseline and provide area based reporting. If it is possible without creating a significant amount of extra work”*). This statement is very disturbing. It is fundamentally misaligned with SLI’s execution approach outlined above.

Required Action

We hereby request that the MOM’s be reissued with the noted statement revised to reflect the agreed Area reporting protocols. Again it is reiterated that it is Nalcor’s requirement and expectation that SLI will provide the necessary Project reporting on the Area basis. Nalcor expects to see the required reporting in SLI’s Monthly Report for July 2011.

In conclusion, we would like to reaffirm that we are ready, available, and capable to provide any assistance in regard to the above. Our willingness to do so cannot be overstated.

Sincerely,

Ron Power
Project Manager – Generation / Island Link
RP/rp

cc: Paul Harrington



Hydro Place, 500 Columbus Drive.
P.O. Box 12800, St. John's, NL
Canada A1B 0C9
t. 709.737.1833 or 1.888.576.5454
f. 709.737.1985

ATTACHMENT 1

Excerpts from SLI's "Proposal for EPCM Services for the Lower Churchill Project"



Hydro Place, 500 Columbus Drive.
P.O. Box 12800, St. John's, NL
Canada A1B 0C9
t. 709.737.1833 or 1.888.576.5454
f. 709.737.1985

ATTACHMENT 2

Excerpts from presentation of SLI's proposal to Nalcor on 07-Oct-2010



Hydro Place, 500 Columbus Drive.
P.O. Box 12800, St. John's, NL
Canada A1B 0C9
t. 709.737.1833 or 1.888.576.5454
f. 709.737.1985

ATTACHMENT 3

Excerpts from SLI's Construction Management-specific presentation to Nalcor on 29-Oct-2010



Hydro Place, 500 Columbus Drive,
P.O. Box 12800, St. John's, NL
Canada A1B 0C9
t. 709.737.1833 or 1.888.576.5454
f. 709.737.1985

ATTACHMENT 4

Excerpts from SLI's presentations in EPCM Kickoff Meeting on 31-Mar-2011



Hydro Place, 500 Columbus Drive.
P.O. Box 12800, St. John's, NL
Canada A1B 0C9
t. 709.737.1833 or 1.888.576.5454
f. 709.737.1985

ATTACHMENT 5

Excerpts from SLI organization charts submitted to Nalcor on 24-Jun-2011



Hydro Place, 500 Columbus Drive.
P.O. Box 12800, St. John's, NL
Canada A1B 0C9
t. 709.737.1833 or 1.888.576.5454
f. 709.737.1985

ATTACHMENT 6

Diagram presented in Stage 2 / PCS Baseline Review Workshop 25-26 July 2011



Hydro Place, 500 Columbus Drive.
P.O. Box 12800, St. John's, NL
Canada A1B 0C9
t. 709.737.1833 or 1.888.576.5454
f. 709.737.1985

ATTACHMENT 7

Excerpts from Nalcor's Project Control presentation in EPCM Kickoff Meeting 30-Mar-2011



Hydro Place, 500 Columbus Drive.
P.O. Box 12800, St. John's, NL
Canada A1B 0C9
t. 709.737.1833 or 1.888.576.5454
f. 709.737.1985

ATTACHMENT 8

Excerpts from MOM's from Stage 2 / PCS Baseline Review Workshop 25-26 July 2011