

LOWER CHURCHILL PROJECT

The purpose of this executive summary is to address all the concerns that SLI can raise in a future meeting with Nalcor's top management so to bring clarity and find the proper solutions to insure project success.

Major Concerns

➤ The integrated team

Nalcor being an owner and an utility, has not the necessary flexibility and autonomy to handle all issues raised in a day to day project business. Actually many struggles are happening when it is time to settle project rules and politics such as policy on employees travel, ppe reimbursement, project branding, assignment conditions, project communications, team building budget and extent, salary and employees benefits, union issues. In fact most of Nalcor's representatives are employed as consultant having their own company and are not company's employee. SLI being a well structured project management organization already got all the rules and politics in place to support the project execution. This EPCM organization can create a shield against all political and public constraints.

➤ Authority and empowerment

Since the EPCM contract has been awarded, Nalcor management never accepted to discuss and agreed to implement an authority matrix so to empower the EPCM managers in their role. Even under the actual integrated team scheme, the power and authority to act are concentrated at only 2 levels such as general project manager and components managers both being owner's representatives. Area managers and site managers have no delegation of authority.

➤ Clear Boundaries

The EPCM model can work only if clear boundaries are established between the client and the EPCM contractor. Not having this, ended in micromanagement and unnecessary involvement by the client's representatives. Clear goals and objectives should govern the project execution with the proper reporting to insure correct measurement and reach the objectives.

➤ Project Organization

Ground rules should be established on how peoples will be selected such as experience on similar projects, aligned competencies, management skills, technical skills.

The process should avoid as much subjectibility as possible and the EPCM contractor should have the last word since project execution is governed on results.

➤ Proper execution schedule

The baseline schedule that has been worked out during the stage 2 and agreed with the client was very optimistic and having few float. This statement has been confirmed after a 2 days workshop with the Wesley group. The project has been sanctioned with a 6 months delay and the early works had started later than planned resulting in a rebaseline pushing the river diversion by one year but keeping the 1st power date in December 2017 for political reason. Such a schedule is unrealistic and may result in schedule and cost overruns.

➤ Cost estimate

At the gate 3, a class 3 estimate have been produced on direct and indirect costs by the EPCM contractor. The client took 5 months to make all the necessary review with a third party so to complete his CAPEX evaluation. The EPCM contractor has not been involved in this process and very few details have been transferred to us so to implement all the costs in the system and being able to insure an appropriate follow up for such an important project.

➤ Quality

Since major components will be manufactured either in China, Turkey and many foreign countries, a strong quality organization having experience should be in place. In the actual integrated team, we have very few confidence in the capability to insure such challenge. Most of all SLI candidates that we have proposed have been rejected , delays in starting shops inspection are occurring and the actual organization is late in hiring adequate staff and supervising suppliers processes.

➤ Risks

Many warning have been done to the client on procurement packaging, procurement and commercial strategies, market overheating, early works organization and strategies to implement. The client has not been listening and keep on executing on his mindset. Such a behavior is resulting after only few

months already important costs overruns and bidders are showing concerns on execution risks which will result in a probable very high cost overrun.

Such reality is already being stated with Innu's contracts, 1500 beds Muskrat falls camp, Ac transmission lines.

In april 2 big packages are closing having together a value near 1 billion. Those bids closure will show the future trend.

Note: This executive summary has been prepared to introduce the project concerns to Scott Thon, new EVP Power so to get a clear picture to support his involvement to the Sponsor Group.

N.B.