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Subject: NLNewsNow Transcript - FORMER NALCOR CEO ED MARTIN BREAKS SILENCE ON MUSKRAT FALLS
Attachments: NLNewsNow_Transcript_VOCM_Morning_Show_20170627-081210.txt

FORMER NALCOR CEO ED MARTIN BREAKS SILENCE ON MUSKRAT FALLS COSTS: Former Nalcor boss "Ed Martin" has come out swinging against his critics. Martin released a lengthy open letter quite late last night, defending his time at Nalcor and denying that he ever saw a risk report from SNC-Lavalin about Muskrat Falls in 2013, let alone try to cover it up as was alleged by the Premier and the Natural Resources Minister. He also said the new CEO Stan Marshall should shoulder the blame for the rising costs of the mega project and stop looking to the past. Ed Martin has no spoken publicly since leaving Nalcor in April of 2016.

Program:	VOCM - Morning Show
Aired:	2017/06/27 08:12:10am
Duration:	00:13:45
Reporter:	Brian Madore
Ref Id:	Y9J-5I9-27

Please find attached the requested transcript.

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BRIAN MADORE: Former Nalcor boss Ed Martin has come out swinging against his critics. Martin released a lengthy open letter quite late last night defending his time at Nalcor and denying that he ever saw a risk report from SNC-Lavalin about Muskrat Falls in 2013, let alone try to cover it up as was alleged by the Premier and the Natural Resources Minister. He also said the new CEO of Nalcor Stan Marshall should shoulder the blame for the rising costs at the mega-project and stop looking at the past. Ed Martin has not spoken publicly since leaving Nalcor last April. Joins me live in studio this morning. Good morning Mr. Martin.

ED MARTIN: Good morning Brian.

BRIAN MADORE: What was it that Premier Ball, Minister Coady, and Stan Marshall said last week that made you want to break your silence?

ED MARTIN: Brian it's very simple. When I was listening to the news last week I was very very surprised to hear that the Premier and the Minister essentially indicated that I had received a report. And actually the report, which I've seen since, is actually an internal SNC-Lavalin report. It's not a Nalcor report. It's nothing produced within Nalcor; it's an internal SNC-Lavalin report. They insinuated that I had that report and probably, more importantly, that the risks that were identified in that report are something that I did not deal with, I did not look at, I did not handle. That is probably the more serious allegation. Following the review of that report over the weekend and review of my files, it's very clear that I did not receive the report, but the risks that were identified in

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that report are all risks that were identified within the Nalcor organization, using Nalcor people, supplemented by SNC-Lavalin contracted personnel. Every one of those risks were identified. Every one of those risks had a mitigation plan against them. And every one of those things have been followed up on consistently throughout the project.

BRIAN MADORE: So just for the record you did not have that report. Stan Marshall uncovered the report last week, so it had to be somewhere in the Nalcor purview - but you did not see it.

ED MARTIN: I did not see it and I would - certainly, I wasn't there with Mr. Marshall. But the fact - where he got that report I think that would be a good question. You know, I'd never seen that report in the Nalcor files. I didn't have that report, and I don't know the circumstances of how Mr. Marshall got that report, so I really can't comment. But I think that's an important question of where did that report come from.

BRIAN MADORE: You're critical of Stan Marshall's leadership right now at Nalcor. What issues do you have with his leadership in running the whole corporation?

ED MARTIN: Brian I - I didn't say anywhere that I was critical of Mr. Marshall - Mr. Marshall's leadership. I don't believe it's the right thing to do. It's clear - I finished up April of last year. I have no more input into decision making at Nalcor. That's the way it is. And now Mr. Marshall is in charge and I'm not criticizing Mr. Marshall in - in this note or in any way. But what I am saying is this - is that what went on at Nalcor, the company that I built, the things that we achieved, ranging from, you know, building the oil and gas company, you know, setting off on the rebuild of the aging assets of Churchill Falls and Newfoundland & Labrador Hydro, sanctioning Muskrat Falls, improving the safety record by 90%, improving our environmental performance by 25%, building up partnerships with the Indigenous people - particularly the Innu of Labrador, building a foundation to be able to generate long-term - long-term revenue for the province in the neighborhood of over \$500 million when these projects come online, setting up the Heritage Fund for the province - those are the types of things that I accept full accountability for up to April of 2016. And all I am saying is that post-April 2016, I'm not involved. It's at that point that a new CEO, the new administration, what happens after that becomes their accountability. I certainly take accountability for what came and happened up to that point in April 2016.

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BRIAN MADORE: People are angry though that the cost of Muskrat Falls has, well, we can almost say doubled now. And you point to other mega-projects being over budget throughout the country. Do you feel any responsibility for this being so far off the rails financially?

ED MARTIN: I'd like to first off clear up the "double" - "doubling" comment. There's been ongoing confusion in terms of comparing apples to apples versus apples to oranges with respect to the numbers. I always spoke in terms of what the actual facilities costs are, excluding interest during construction. Both numbers are acceptable but you have to be able to compare one number if you're looking at one number which is just the facility's capital excluding interest, you have to compare it to the new number in the exact same fashion. And that comparison, before I left, we sanctioned at \$6.2 billion. When I left, in my estimation, the project costs were stabilizing at around \$8.8 billion and that is not a double. The reasons for that, and I've been clear on in my tenure, I've spoken publicly about it, I've been upfront and always available to the media and the public. I never walked away from an interview, staying as long as I could, answered every question. And I accept accountability for those changes - understanding, though, that those changes are made up of several categories. In some cases there were enhancements to the actual project to benefit us in the long term. In addition, though, there were situations occurred where there was a hot market in the contracting community which in some cases we did not anticipate, frankly. But we managed and kept the cost down as low as possible. And, in some cases, particularly Astaldi, we had contractor performance problems at the outset. But, once again, the project team at Nalcor did outstanding work in mitigating those things. So yes the costs have increased under my watch up to the amounts I talked about and I accept responsibility for that. But I will say they were mitigated to the absolute extent possible. The project team did a great job in doing that. And then anything that happens from here on in after April 2016, I can't answer for.

BRIAN MADORE: But how could say something like the maintenance and operational costs be pegged at about \$35 million end up tripling to \$105 million? A major impact on electricity rates. Somebody had to screw up somewhere along the line either the current leadership or the previous leadership.

ED MARTIN: So let's just explore how these estimates are done. And - and I - I don't know the answer because I'm not there now in terms of what's happened, but I can tell you what happened when I was there. Initially when the project team was formed and the project began. We placed very senior operating personnel, took them out of Newfoundland & Labrador Hydro, and put them right into their actual project construction team so they could work side by side with the constructors and make

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sure that what was being built was going to be something that they could operate. Those are the people who actually handled, you know, defining how this project would - how Muskrat Falls would be operated. It's called the Operating Philosophy, but simply put, in general, the idea was to take Muskrat Falls and the Labrador-Island Link and rolled it into Newfoundland & Labrador Hydro as another hydro asset. Very experienced company. Bay d'Espoir is 600 megawatts. Muskrat Falls is 824. So, they are used to running very large plants. You know, Holyrood is going to be closing. So you have the net off of that. And by virtue of rolling Muskrat Falls and the Labrador-Island Link into the Newfoundland & Labrador Hydro suite of assets, we've got all of the synergies of basically adding the personnel to run that plant. But we had all of the support groups, you know, all of the backup groups, all of the administration groups, and all those types of things were there to support another hydro plant. That was the philosophy. The people who were very experienced in operating plants for 30-40 years did up the estimates there and that's where the - that's where the number of the 35 to 40 million came from initially. What's happened since, I think someone needs to ask about the operating philosophy - has it changed? Because, if you look at it from the way I'm describing it, I find it very difficult to understand how that change could take place unless there was a change in how this thing was going to be operated. In other words, is it still going to be rolled into Hydro and be part of the overall group, or is it going to be separate. Brian I don't know those answers. I'm not there. I'm not making the decisions. But I will tell you in - on my watch, that's how we developed the operating costs. And I was confident in those operating costs. If they had increased, you know, by several millions, that would not be good, but I could understand some things, you know, you may have missed it in an estimate or whatever, but for the magnitude what's happening here, I - I - I don't understand it. I think someone else is going to have to speak to that.

BRIAN MADORE: Given the current numbers, looking back, you preached long and hard that Muskrat was the lowest cost option for new electricity generation on the island. Looking back now, would you have reached that same conclusion?

ED MARTIN: Absolutely, unequivocally, yes. Muskrat Falls is the best option for this province. There's no question about it. You go back and do the comparisons. Put that aside for just a second. This project is - is going to be there for generations to come. It's a hydro project meaning that your fuel is water will be there forever and you own it. It's going to be greenhouse gas emissions - as the carbon tax comes on, you're going to see we're not going to be hit by that in terms of generation perspective. And reliability has improved immensely. And also a lot of the comparisons with respect to Muskrat Falls being, you know, the lowest cost and best option is based yes on the price of oil. And, you know, I challenge people who take a shot today, a single look at the price of oil today, and start to project that over a 50-100 year period to say that that's where it's going to be. Therefore with the price of oil down, this doesn't make sense anymore. It's very

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clear in the commodity business, in the oil and gas business. There's one thing for certain - oil prices will be low and oil prices will go extremely high, and that pattern will continue over the next 50-100 years. One thing is also for certain - the general trend is a rising cost. So you cannot take a snapshot of one day, one week, or one year with oil prices when you're building a 50-100 year asset; you have to look long-term. And that's why I'm extremely confident that this project will still be the best project from a cost and reliability perspective. And so no matter how I - I - I slice or dice it, it is. Demand for electricity is another extremely key factor when it comes to rates and driving rates. How much power is going to be used in the province? When we sanctioned the project, the economy was very - was much stronger. And a big driver for demand is the input from the provincial forecast of economic development. So that was one way that was - that was in - built in such a way at the time we sanctioned. Right now it's much lower. We know that we're in a downturn. There's no question. Everybody's hurting. It's a very very difficult time for us. But, that being said, that is - that is what is driving the new demand forecast. When things pick up again, oil prices will come back. We're seeing great strides in our offshore right now with the seismic program we put in place. We've had record land sales. That's an indication there's going to be lots of development coming here in Newfoundland & Labrador in the offshore. Oil prices will rebound. And based on that, you're going to see the economy rise again, you're going to see demand increase again and that's going to lower the rate forecast. And frankly Brian it'll probably go down again 10 years from now. That's the nature of this type of business. So you can't take certain snapshots of a year or two and just look back and say everything is wrong. We have to be able to look at these types of projects and look at our future and future generations of 50-100 year chunks, realizing that we've made the best long-term decision for the province. Rates are going up. That's very difficult for people. But I will also say is that there's a reality here - Decisions have to be made. Our assets, excluding Muskrat Falls are 40-50 years old. Like in the rest of North America - the whole continent is in a rebuild of their assets. A big portion of the increase that's coming is related to that rebuild; not Muskrat Falls. A big portion also is related Muskrat Falls, but it's a split. The current assets have to be rebuilt the same is going on in North America. Muskrat Falls has to be built because Holyrood is not going to make it. We have to replace it - that's a fact. So, a decision had to be made. We made the right decision. No decision results in no electricity and that's unacceptable. So what you're going to see here is something like happened back in the - in the 70s across North America and Newfoundland & Labrador when we built all of this infrastructure. If you look back over time, rates dramatically increased in Newfoundland & Labrador - dramatically. And across North America. Very steep steep increases. And lots of newspaper articles and media covering it. That happened across the country and it happened here. Then you have a period of relatively stable rates because you're operating the assets. But we're going into that next cycle like the rest of North America is that these assets have to be rebuilt and we have to replace. And we have to do things like Muskrat Falls. You're going to see increases across North America again. And following that, the expectation is that they will once again generally level out for a period of time - likely 30 or 40 years - and they'll be at - and we will be back at it. until the end. So a decision had to be made. We have to do it. I was in the chair and I had to make the

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decision. The only thing worse would be to sit there, put my head in the sand, and do nothing.

BRIAN MADORE: Ed Martin, former head of Nalcor. Thanks very much for this. Always accommodating, as usual.

ED MARTIN: Thank you very much, Brian.

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