

Date : 10/7/2013 9:58:20 AM

From : "Quinton, Diana"

To : "Marshall Q.C., Hon. Thomas"

Cc : "Wells, Larry" , "Bown, Charles W."

Subject : FW: Update on Power contract award

Attachment : News Release_CH0007_2Oct2013 draft (embargo).docx;KM-QA_CH007_2Oct2013 (2).docx;ATT163974.jpg;

Attached is the news release and key messages from Nalcor regarding the powerhouse contract.

From: KONEill@nlh.nl.ca [mailto:KONEill@nlh.nl.ca]

Sent: Friday, October 04, 2013 6:32 PM

To: Quinton, Diana

Cc: JanineMcCarthy@nalcorenergy.com

Subject: Update on Power contract award

Hi Diana,

On Tuesday next week Nalcor plans to issue the following news release at 12:00 pm. This is regarding the contract for the large civil works for the powerhouse. The next day, Astaldi will issue their own release. The specific timing is due to the fact they are a publically traded company in Italy. We might make a few minor tweaks to the release over the weekend. Nalcor will not put the value of the contract in the news release but Astaldi will b/c of the market impacts. The answer to that question is in the Q&As. We will release the value of approx \$1b when asked.

Let me know if you have any questions/need additional info.

Thanks

Karen



Karen O'Neill

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Nalcor Energy selects preferred contractor for Muskrat Falls civil works

October 8, 2013, St. John's, NL – Nalcor Energy announced today that it has selected Astaldi Canada Inc. as the preferred contractor for the construction of major civil works for the Muskrat Falls hydroelectric generating facility. Negotiations are expected to conclude in the coming weeks for the contract which includes construction of the powerhouse, intake, gated spillway, transition structures and other associated work.

“We’ve followed an extensive evaluation and selection process for this contract package,” said Gilbert Bennett, Vice President, Nalcor Energy Lower Churchill Project. “Our goal was to identify the contractor that could meet the technical requirements of the work while providing the best overall value for the project and the people of this province.”

Nalcor is now focused on completing commercial negotiations with Astaldi to finalize the contract. Mobilization to the Muskrat Falls Project site and preparation for this work will begin in the coming weeks.

“Work on the Muskrat Falls project is progressing,” said Bennett. “The number of people working on site has grown to approximately 900 and with the start of construction on the powerhouse, that trend will continue.”

Astaldi Canada Inc. is based in Montreal with operating offices in St. John’s and Goose Bay. Astaldi Canada Inc. is a wholly owned subsidiary of Astaldi S.p.A., a leading Italian general contractor with over 90 years of global experience. Its expertise is in the construction of large infrastructure projects in transportation, water and energy, and civil and industrial building.

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For detailed information about the scope of work for this contract, visit the procurement section of the Muskrat Falls Project website at www.muskratfalls.nalcorenergy.com/procurement.

Additional information about Astaldi and its construction projects is available at www.astaldi.com.

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KEY MESSAGES**Selection of Successful Contractor, Powerhouse Contract****October 2, 2013 - DRAFT**

- Following an extensive procurement process, Nalcor has selected Astaldi Canada Inc. as the preferred contractor for construction of the powerhouse, spillway, intake and transition dams at Muskrat Falls.
- Nalcor is currently working through commercial negotiations with Astaldi to finalize the terms of the contract.
- Throughout the procurement process, our goal was to identify the contractor that could meet the technical requirements while providing the best overall value for the project and for the people of this province.
- To ensure an immediate start to construction of the civil works, Astaldi will begin mobilizing to the Muskrat Falls Project site in the coming weeks.
- Astaldi is a leading Italian general contractor with over 90 years of global experience in large infrastructure projects. Astaldi has successfully delivered numerous civil construction projects around the world.
- Similar to other mega-projects occurring in the province, some contracts will be awarded to national and international companies; this is common for contracts requiring highly-specialized technical expertise (*ex. Kiewit, US; Worley Parsons, Australian*). Astaldi is one of only a handful of companies internationally that have the ability to execute a project like this.
- Although Astaldi is an international company, the reality is that the value for this contract will remain in the province, where the work is being done.
- Jobs and economic benefits from construction of the Muskrat Falls Project are already being generated in the province. This contract will see additional benefits for Newfoundlanders and Labradorians, through subcontracts and suppliers in the local community, to providing additional local employment.

Bidder Selection/Procurement Process:

- All contracts for the Muskrat Falls Project are subject to an extensive, rigorous and competitive procurement process to ensure that project costs are effectively managed.

- The procurement process was focused on best overall value to the project and ultimately, electricity customers in the province, including a full assessment of risks, technical ability, experience, quality, safety and cost.
- Astaldi Canada Inc. was selected as the contractor for this work based on the best technical execution plan combined with the best commercial bid, which ultimately provides the best overall value for the project and Newfoundlanders and Labradorians.

Benefits:

- Nalcor is committed to ensuring that Newfoundlanders and Labradorians receive value for the province's investment in Muskrat Falls.
- Similar to other mega-projects occurring in the province, some contracts will be awarded to national and international companies; this is common for contracts requiring highly-specialized technical expertise.
- Muskrat Falls will create significant job opportunities for Newfoundlanders and Labradorians during construction. There will be significant spin offs for our province because this is where the project is being built.
- The Benefits Strategy with the Government of NL establishes a hiring protocol for the project and that protocol is being followed for current hiring practices.

Labour:

- The Benefits Strategy for the Muskrat Falls Project outlines the hiring protocol for workers – qualified Innu workers first, followed by qualified Newfoundlanders and Labradorians, qualified Canadians and then foreign workers.
- All project contractors must adhere to hiring protocol and benefits strategy – local employment benefits are the same no matter which contractor is engaged for work.
- Workers at Muskrat Falls receive the same rate of pay for similar work, regardless of where the worker is from. The Collective Agreements establishes the rate of pay for all workers.
- Nalcor, the unions and project contractors will aggressively recruit skilled workers. We have a good labour agreement in place and offer competitive salaries, benefits and quality accommodations to workers.

Questions and Answers

1. How can Nalcor continue to award contracts and pay contractors when it doesn't yet have financing in place for the project?

Ensuring that large or long-lead contracts are in place provides certainty to lenders and ultimately helps mitigate risks to the project, and for the benefit of ratepayers.

Additional information: Payment terms in these contracts have been set out in a manner that allows Nalcor to manage its cash flow requirements in a prudent and cost effective manner until the full amount of funding is in place.

2. How much money has Nalcor spent on the Muskrat Falls Project this year? To date?

The project has moved along on several fronts and to support the significant amount of activity, \$809.7 million (excluding interest charges) has been invested in the Lower Churchill Project since the end of 2003. These recent investments are in addition to the \$115 million spent by prior administrations and \$74.8 million in interest incurred; for a total expenditure of \$968.5 million since the 1970s.

3. Isn't it true that this is an Italian company and it will bring over all its own workers because that is cheaper than using local workforce?

The Benefits Strategy for the Muskrat Falls Project outlines the hiring protocol for workers, which all project contractors must adhere to – local employment benefits will be the same no matter which contractor is engaged for work. Our current hiring protocol specifies that qualified Innu workers must be hired first, followed by qualified Newfoundlanders and Labradorians, qualified Canadians and then foreign workers.

As of July 31, 85% of workers at Muskrat Falls are Newfoundlanders and Labradorians, and there were no workers at the site from outside Canada.

4. Because this company doesn't know the marketplace and the weather conditions, won't it run into problems and it will actually cost more money than if you hired a Canadian company?

Like other mega-projects occurring in the province, some of the large contracts for Muskrat Falls will be awarded to national and international companies; this is common for contracts requiring highly-specialized technical expertise.

Throughout the procurement process, our goal was to identify the bidder that could meet the technical requirements for this contract while providing the best overall value for the project

and for the people of this province. We are confident in Astaldi's ability to successfully carry out this work.

5. How much is this contract worth? How much are you paying them?

While we can't provide a specific contract value, we can say that this is valued at approximately \$1 billion.

6. How much did the other companies bid?

It wouldn't be appropriate to disclose the bid values for the three unsuccessful bidders, however we can say with certainty that the bid that was submitted by Astaldi provided the best technical execution plan combined with the best commercial bid – which ultimately provides the best overall value for the project and Newfoundlanders and Labradorians.

7. Did this contract come in as expected in the DG3 estimate? Is it over budget? If yes by how much?

It is generally in the range we expected.

We recognize and are sensitive to various cost pressures for the project, and are managing project costs carefully to ensure we maintain our schedule and budget.

8. Will taxpayers be on the hook for the expenditures made by Astaldi before the contract is finalized?

We are confident moving forward based on the rigorous evaluation that has been carried out. Mobilizing the contractor to the site now ensures that we can immediately start construction of the civil works, which will begin this fall.

9. Why did you choose an Italian company over a Canadian one?

Throughout the procurement process, our goal was to identify the bidder that could meet the technical requirements for this contract while providing the best overall value for the project and for Newfoundlanders and Labradorians. Astaldi is that bidder.

Other points:

- The Muskrat Falls Project is very similar to other mega-projects occurring in the province, where it is common to contract globally for highly-specialized technical expertise.
- We are committed to ensuring that Newfoundlanders and Labradorians continue to benefit from the project – through jobs and business opportunities.

- Astaldi has already been engaging the local business community to try to leverage local knowledge, services and expertise, and will be opening a local office in Goose Bay in the near future. We fully expect to see local jobs and business opportunities grow with this contract.

10. How do you defend the technical errors that Astaldi made in constructing a dam in Algeria a few years ago? How can you be confident in the work they are going to do?

All contracts for the Muskrat Falls Project are subject to an extensive, rigorous and competitive procurement process that included a full assessment of risks, technical ability, experience, quality, safety and cost. Astaldi provided the best technical execution plan combined with the best commercial bid, and we're confident in their ability to successfully carry out this work.

In addition, we're extremely confident in the engineering, design and construction management for Muskrat Falls. Engineering for Muskrat Falls meets standards established by the Canadian Dam Association, and we have a project team with global expertise in megaproject construction and management. We are managing all aspects of the project diligently on behalf of the people of this province, and we will continue to do so as we move forward with the next major phase of work.

11. People in Happy Valley – Goose Bay have long expressed concern about a dam break. Astaldi is accused of building a dam that cannot retain water properly. What do you have to say to residents to ease their minds about a dam break?

We're confident in Astaldi's ability to successfully carry out this work. All contracts for the Muskrat Falls Project are subject to an extensive, rigorous and competitive procurement process that included a full assessment of risks, technical ability, experience, quality, safety and cost. Astaldi provided the best technical execution plan combined with the best commercial bid.

A dam incident is very unlikely. There are thousands of dams in North America, some 100 years old or more. The facilities at Muskrat Falls are designed and being built to very high standards, and will be closely inspected and monitored.

Other points:

- Nalcor has a pro-active dam safety program which follows the Canadian Dam Association (CDA) Dam Safety Guidelines for design, construction, inspection and maintenance of its structures.