

**Natural Resources
February 25, 2014
Independent Engineer and Nalcor Oversight**

Q. Why didn't you read the independent engineer's report?

- The assignment of an Independent Engineer was a condition precedent of the Federal Loan Guarantee.
- By November 2013, independent engineer's work had progressed to the satisfaction of federal government's requirements for the loan guarantee. An interim report was prepared.
- The Provincial Government just received independent engineer interim report. We will consider public release once reviewed for commercial sensitivities.

Q. Why didn't you ask for the report earlier?

- We would have been interested in seeing the report once it was finalized. To date, note that the report is still interim.
- However, we need to put this report into context; the work of the independent engineer is **ONLY ONE** of the checks and balances on the Muskrat Falls project.
- As shareholder on behalf of people of Newfoundland and Labrador, the Provincial Government ensures Nalcor remains accountable to the people of the province.



Transition to oversight

- The government, on behalf of Newfoundlanders and Labradorians, are investing in world-class energy projects that will benefit generations long into the future.
- We've established Nalcor Energy to lead the development of our world-class energy resources.
- In doing so, we have direct oversight of Nalcor Energy and its business operations.
- At each phase from sanction, to financing, construction and finally operation, government has direct oversight of Nalcor.
 - *Sanction:* During this process government initiated the following oversight activities: the PUB review process, had an independent review by MHI of the project which led to project sanction, put in place a series of legislative changes which received review and approval by cabinet and full debate in the HOA. Gov't

Also
Nalcor
MHI (b)
12/11 (2)
Topic
Cabinet
Oversight in HOA

as well as opposition also received updates from Nalcor's CEO and VPs. Government also conducted its own independent reviews and analysis of the options and alternatives to Muskrat Falls to inform its decision making.

- o *Financing and Federal Loan Guarantee*: The Depts of Finance and NR were actively engaged and overseeing the requisition for financing and the FLG process with the GofC. Cabinet also had approval for the FLG and financing for the \$5billion for the project.
 - o *Construction*: having moved through sanction and financing stages, we are now finalizing an accountability framework for the construction phase of the project. This framework will build on existing control systems that Nalcor has already implemented and will facilitate Government's oversight of the project during this phase. Government will be actively involved in providing the appropriate level of oversight required for the project and as an equity owner.
 - o *Operations*: With in service of the Muskrat Falls Project, there will be another process and review to ensure appropriate oversight for regular operations of the electricity system.
- As a crown corporation of our province, Nalcor is provided direction through legislation and through the Province's Energy Plan on its reporting processes and procedures.
 - The PUB has oversight of NL Hydro's capital programs, GRA's and other rate-related filings.
 - Today, Government can audit Nalcor and its processes, as well the Auditor General has open access to Nalcor's operations at any time.
 - In addition to Nalcor's regular government, public and regulatory reporting, additional oversight has been put in place for the Lower Churchill Project. We are ensuring appropriate accountability to ensure due diligence and oversight.
 - Since 2013 Nalcor has had a formal process with DNR ^{+ Finance} related to making draws on approved equity requests that includes providing monthly requests, supported by documentation and an internal Nalcor certification process to certify that prior equity draw has been used as intended.
 - There has been more information made public about this project than any in the province's history, providing the opportunity for oversight not only by the government, but by the people of the province. This continues to be a dynamic process that will evolve throughout the life of the project.

Best
Interest
Committee

Q. Why is there only one independent engineer?

- Our objective in oversight is to be aware of project activities and ensure that the project meets its targets. There is no need for us to repeat or duplicate everything that Nalcor does. We have to have faith in our own people. That's why we hired Nalcor.