

# MUSKRAT FALLS COST ACCOUNTABILITY AND PROJECT OVERSIGHT

PRESENTATION TO CABINET

MARCH 13, 2014

## Existing Project Oversight - Government

- Pre-Sanction Reports
  - Navigant Consulting – Review of Nalcor’s DG2 decision (Sept. ’11)
  - MHI – Report to PUB (post DG2/pre-DG3) on Two Generation Expansion Alternatives for the Island Interconnected Electrical System (Jan. ’12)
  - MHI – Review of DG3 MF and LIL and Isolated Island Options (Oct. ’12)
- Pre-Financial Close Financing NR/Finance
  - Project evaluation
  - Project financing
- NR/Finance meet regularly with Nalcor
- Updates to Cabinet

## Existing Project Oversight - NRCan

- Independent Engineer
- Internal and external legal counsel
- Internal and external financial advisors
- Collateral Agent (Toronto-Dominion Bank)

## Existing Project Oversight – Independent Engineer

- Nalcor retained (August 2012), at its cost, MWH Canada as an independent engineer to complete due diligence and ensure compliance with the terms of the Federal Loan Guarantee and all financing documents required by the Government of Canada for financial close
- Although the contract is between Nalcor (and with Nalcor's project subsidiaries as of financial close) and MWH, the client is the Government of Canada and the lenders (TD Bank as Collateral Agent)
- MWH's scope of work covers two phases of the project:
  - Phase 1 – pre-financial close
  - Phase 2 – construction/operations

## Existing Project Oversight – Independent Engineer

- Phase 1 – Pre-financial close
  - Review project design and projected performance
  - Review construction plan and schedule
  - Review capital budget
  - Review commercial operation and maintenance services
  - Review project agreements (such as power purchase agreements)
  - Review permits and licenses
  - Review basis of project pro forma financial model
  - Prepare Independent Engineer's report
  - Support financial close
- Phase 2 – Construction/Operations
  - Monitor engineering and procurement relative to milestone schedules
  - Conduct site visits/review quality control documents to assess compliance with milestone schedules
  - Review change orders to construction contracts
  - Prepare periodic and final report/other documentation as required
  - Verify project completion

## Existing Project Oversight - Nalcor

- Internal Audit committee – reports to Board of Directors
- External auditors – provides independent audit opinion on financial statements
- Board of Directors
- Annual Reports/Annual General Meeting
- Annual Transparency and Accountability Report
- CEO updates to Cabinet

## Role of Auditor General

- Auditor General currently has the mandate to review the operations of Nalcor at any time
- Auditor General's findings and report(s) would have to exclude commercially sensitive information

## Project Oversight Objectives – Post Financial Close

- Formalize project oversight between GNL and Nalcor
- Create a committee structure to implement such oversight
- Ensure adequate reports and related documentation to support Nalcor's requests for equity contributions
- Assure general public, Opposition parties and other groups that GNL is providing appropriate oversight to Nalcor/MF project
- Provide oversight consistent with other global projects of similar scale

## Independent Review of Proposed Oversight Framework

- Ernest & Young LLP have been retained to:
  - Conduct a gap assessment of the proposed list of required information and recommend additional items to be added/modified
  - Provide comments/recommendations on the proposed governance structure of the Committee
  - Identify the resources that will be required to support the Committee's work

## Oversight Committee - New

- ✓ • Clerk of the Executive Council (Chair)
- ✓ • Deputy Minister of Finance
  - Assistant Deputy of Finance (Fiscal and Tax Policy)
  - Director of Debt Management
- ✓ • Deputy Minister of Natural Resources
  - Associate Deputy Minister of Natural Resources
  - Assistant Deputy Minister of Natural Resources (Energy Policy)
- ✓ • Deputy Minister of Justice
- ✓ • Assistant Secretary to Cabinet for Economic Policy
  - Dedicated resource within Finance

## Role of Oversight Committee

- Receives and reviews information/data from Nalcor and external reports (Independent Engineer)
- Reviews and monitors equity requirements
- Reports to Cabinet
  - Cabinet to direct Minister of NR to address relevant issues with Nalcor
- Provides updates and discusses issues with LCP Project Coordinating (ad hoc) Committee
  - Clerk of the Executive Council (Chair); comprised of Deputy Ministers (e.g. NR, FIN, ENVC, JUS, MIGA) and Nalcor
  - Addresses ongoing project issues (e.g. FLG, environmental, permits, benefits, legal)
- Meets quarterly with Nalcor officials

## Required Information

- Current estimates of total project costs and comparison to budget/DG3 with explanations for all material deviations
- Project costs incurred to date including a breakdown by major expense category
- Value of contracts awarded – current and cumulative
- Status of project financing including details on drawdown of funds
- Details of tendered but not yet awarded contracts along with expectations as to award
- Update on project scheduling including information on variations from plan
- Status of potential contingencies or cost overruns that have not yet been realized/quantified
- Other qualitative commentary on project process, significant developments and details of potential issues that may become public over the short-medium term, incl. related communication strategies
- Copies of all audit reports
- Any other information as the Committee might from time to time require
- Any other information that Nalcor Management thinks the Committee should be made aware of

\*Ernest & Young LLP has been retained to provide advice on the robustness of the information that Nalcor will be required to provide and to identify any additional information requirements.

## Required Information

- Monthly Reports\*
  - Actual incurred costs by major expense category for current month and project to date versus budget
  - Final Forecast Cost to Complete versus Project Budget
  - Commentary, variance explanations for material differences and recovery strategies relating to above
  - Project schedule and progress against key milestones
  - Updates on the award of major construction contracts
  - Details on monthly debt and equity advances
  - Construction Reports and Funding Requests (incl. IE Confirmation Certificate)

\* Monthly Construction Reports and Funding Requests issued to Canada, Collateral Agent and IE as per the Project Finance Agreements. IE provides certification prior to advance of debt funds.

## Required Information

- Quarterly/Annual Reports
  - Highlights from the Construction Reports, Funding Requests and any IE progress reports issued in the previous quarter
  - Forecasted capital expenditures broken down by month for the next 12-month period
  - Details of any new Authority for Expenditures approved during the previous quarter
  - Details of internal audit reports pertaining to medium to high risk areas identified in the previous quarter
  - Nalcor's external auditors (currently Deloitte) to provide separate annual report
  - Updates on any other items specifically requested by the Committee

## Review and Assessments

- Examine current estimates of total project costs and comparison to budget and obtain explanations for material deviations
- Assurance that MF project costs are within the scope of the latest approved Authority for Expenditure
- Ensure equity advances are in accordance with the Shareholder's Letter
- Maintain understanding of major contracts tendered and awarded – current and cumulative
- Monitor status of project financing including details on drawdowns of funds
- Monitor progress against project schedule
- Monitor potential for contingent equity
- Examine details of medium to high risk issues identified in internal audit reports
- Examine copies of all Independent Engineer reports and related certifications

## Protocol Initiation and Public Information

- Protocol Initiation
  - Shareholder's letter
- Public Information
  - Quarterly reports; approach and content to be determined in consultation with:
    - Ministers of FIN, NR and JUS
    - Clerk of the Executive Council
    - Cabinet
    - Nalcor
    - Communications Branch



2014/03/13

MC2014- [REDACTED]

NR/DM  
E Martin/NALCOR  
Deputy Clerk  
File

XX2014- [REDACTED]

An Update respecting Muskrat Falls Cost Accountability and Project Oversight was received from the Minister of Natural Resources.

The following direction was provided:

- 1) Approval in principle was given for the framework, substantially as outlined in the Minister's presentation;
- 2) The Department of Natural Resources is directed to bring forward, for the consideration of Cabinet, an update related to the outcome of the work currently being completed by Ernst and Young LLP and any proposed amendment(s) to the framework as a result of this work;
- 3) Approval was given for the creation of an oversight committee related to the Muskrat Falls project, consisting of
  - a) the Clerk of the Executive Council (Chairperson),
  - b) the Deputy Minister of Finance,
  - c) the Deputy Minister of Natural Resources,
  - d) the Deputy Minister of Justice,
  - e) the Assistant Secretary to Cabinet – Economic Policy,
  - f) the Associate Deputy Minister of Natural Resources,
  - g) the Assistant Deputy Minister of Natural Resources – Energy Policy,
  - h) the Assistant Deputy Minister of Finance – Taxation and Fiscal Policy,
  - i) the Director of Debt Management – Department of Finance, and
  - j) an independent member appointed by Cabinet; and




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- 4) The Department of Natural Resources is directed to develop, for the signature of the Premier and the Minister of Natural Resources, a shareholder's letter to Nalcor Energy respecting the oversight of the Muskrat Falls project.

*Julia Mullaney*  
Clerk of the Executive Council

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  - g) the Assistant Deputy Minister of Natural Resources – Energy Policy,
  - h) the Assistant Deputy Minister of Finance – Taxation and Fiscal Policy,
  - i) the Director of Debt Management – Department of Finance,
  - j) a public servant with expertise in the area of civil engineering selected by the Clerk of the Executive Council; and




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*Julia Mullaley*  
Clerk of the Executive Council

(Forwarded September 18, 2014 to replace MC2014- previously forwarded)

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*Julia Mullaney*

Clerk of the Executive Council

(Forwarded Sept 23, 2014 to replace MC2014- previously forwarded on Sept. 18, 2014)