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Subject: Anchoring Back to our Principles in order to Move Forward
Date: Wednesday, January 15, 2014 4:25:34 PM
Attachments: [.png](#)
[Open Book Estimate Development Model - 5-Nov-2013.pdf](#)

BJ,

I can confirm that we will travel to Edmonton for 23/24 January with the option for spillover into the weekend. Given the discussions will have an objective of determining whether a win/win opportunity exists, I suggest the discussion is best held with a smaller group, while others can be called upon from the back room. Note: Presently I am assessing who will attend (it will be no more than 4 individuals including myself) and will be able to advise sometime tomorrow.

I have continued to reflect on where we are today versus my expectations of where we would be when we initiated this process back in late October. My conclusion is that we have a significant gap... in both output and expectations. While many of our negotiating principles have remained intact, I do not believe the open-book transparent pricing model (attached for reference) has been truly followed during these discussions. I am not suggesting that we have strayed intentionally, however it is realization of a concern we expressed in the 28-Oct meeting - that is how difficult it would be for Valard to move towards a truly open book process given it is a new way of working for them.

I think you will agree that we don't get this back to the principles, neither of us will get to a win-win endpoint for both Nalcor and Valard/Quanta.



[Open Book Estimate Development Model - 5-Nov-2013.pdf](#)

It was and has been my expectation (and I thought shared by yourself and Gary) that in an open book model many estimate inputs such labor and equipment rates should be easy to agree upon, while other more contentious items like profit and risk premiums would take the bulk of the effort. But what I have seen is that we can't even see eye-to-eye on the most basic of inputs, largely due to the fact that rates that are proposed appears to be burdened with profit and risk premiums which skews the input, thus compromising the open book process (i.e. rates are inflated, questions are raised, and transparency gets questioned). Be it labor or equipment or crews, I believe we have estimate inputs that each tries over compensates for unknowns by adding in contingency or risk factors. Rather, a pragmatic approach that is aligned with our negotiation principles would to discuss the issue, frame it, quantifying the exposure, develop mitigation strategies, and agree upon who best is to assume the residual exposure.

As you are fully aware we have a huge gap on expectations. I don't believe this gap was intentionally created, rather has developed due to a combination of (1) a lack of deep discussion and agreement on key inputs into the open book estimate model, (2) a closed-book estimating mindset where risk provisions are carried within individual estimate inputs, and (3) a lack of "out-of-the box" thinking from both groups that can create the winning formula to bring this job as close to budget as reasonably possible.

To achieve the win/win we both desire we need a paradigm shift. Let's start by getting back to agreeing upon the basic inputs, and place the risk and profit items to one side.

I suggest we have a call on Friday at 1pm NST to discuss how we move forward in preparation for our 23/24 January meeting.

Safe travels.

Jason

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You owe it to yourself, and your family, to make it home safely every day. What have you done today so that nobody gets hurt?

Open Book Estimate Development Model

05-November-2013

Boundless Energy



Confidential and Commercially Sensitive

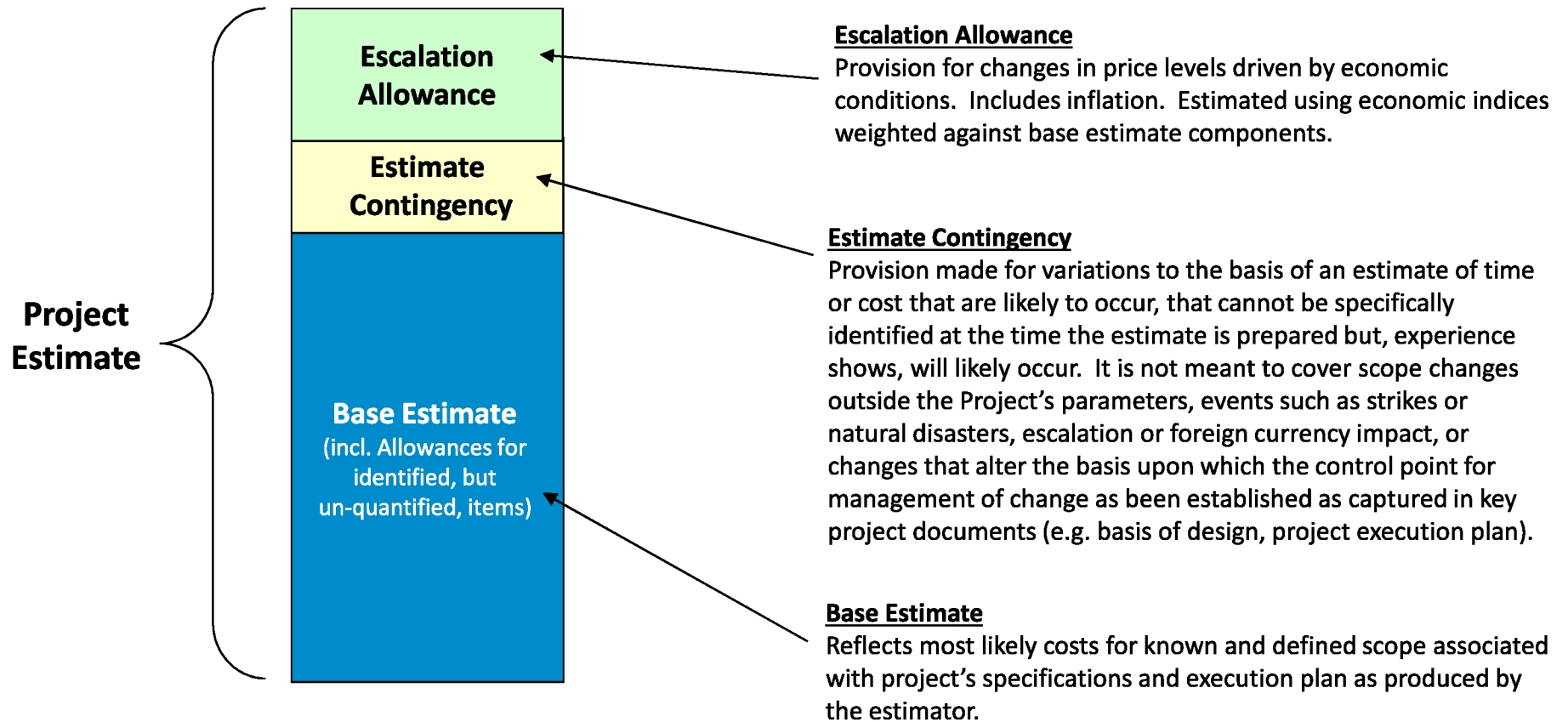
Purpose

- Leverage Nalcor's estimating framework as a collaboration model to develop an open book estimate for the HVdc TL.

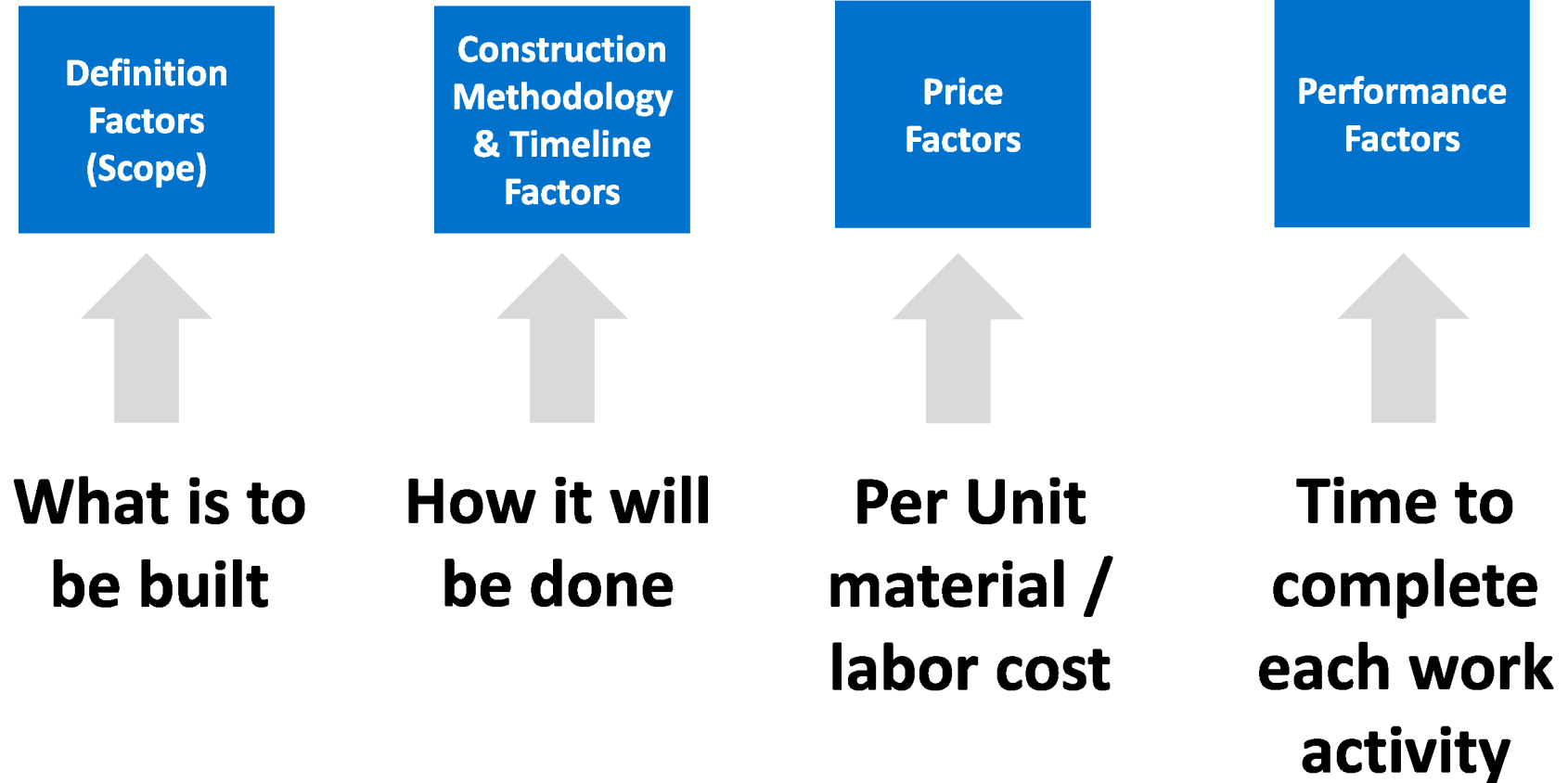
Nalcor's Estimating Approach

- Adopt industry recommended practice
 - Association for Advancement of Cost Engineering (AACE) International
- Focus on key cost drivers
- Fully engage project team
- Understand and apply lessons learnt from other projects
- Gather external and independent input

Cost Estimate Components



The Estimators Consider 4 Elements



Each Element has Extensive Information Set



- ❑ Design Criteria & Specifications
- ❑ General Arrangements & Layouts
- ❑ Design Drawings for major components – towers and hardware
- ❑ MF rock and concrete quantities from 3D CAD
- ❑ Master Equipment List
- ❑ Cable List
- ❑ Material Take-offs for Construction Bulks
- ❑ Equipment Specifications
- ❑ Geotech surveys
- ❑ WBS & Cost Codes

- ❑ Construction Philosophies
- ❑ Construction Execution Plan
- ❑ Constructability Reviews
- ❑ Construction Schedule
- ❑ Logistics and Access, incl. freight forwarding & marshaling yards
- ❑ Contract Package Dictionary
- ❑ Org. Design and Staff Plans
- ❑ Construction Equip. Types
- ❑ Labor Demand
- ❑ Labor Demarcation
- ❑ In-directs Strategies
- ❑ Site Services
- ❑ Pre-Fabrication Plans
- ❑ Crane & Access Studies
- ❑ Support Facilities
- ❑ Material Sourcing Strategies
- ❑ Seasonality Constraints
- ❑ Permit Register

- ❑ Labor Agreement
- ❑ Construction Equip. Rates
- ❑ Bid Analysis – T/G, SOBI Cable, Tower Steel, Accommodations, Road
- ❑ Budgetary Quotes – various equipment
- ❑ Site Services Costs – catering, air transport
- ❑ Construction Bulks Prices – Rebar, Cement, Diesel, etc.
- ❑ Helicopters and Airplane
- ❑ Contracting Market Intelligence – overhead and profit
- ❑ Foreign Exchange Rates

- ❑ Crew Make-up and Assignments
- ❑ Task durations
- ❑ Workforce Restrictions
- ❑ Labor Productivity & Benchmarks
- ❑ Mobilization Constraints
- ❑ Work Front Stacking
- ❑ Seasonality Impacts
- ❑ Equipment Productivity
- ❑ In-Directs Usage
- ❑ Offsite Fabrication

- ❑ Estimate organized by Project, Physical Component and by Contract Package
- ❑ Documented Basis of Estimate
- ❑ Foreign Currency Demand
- ❑ Person hours
- ❑ Trade demands
- ❑ Cash flows



Negotiating Principles

- **Both parties believe that direct negotiations can get to a win-win endpoint for Nalcor and Valard/Quanta.**
- **Both parties subscribe to collaboratively developing an open book price model with closed book execution**
 - Will build up trust between the parties and allow for the mutual discovery of cost saving/sharing opportunities
 - Will allow Valard/Quanta to incent supervisory and workforce performance
 - The contract price structure is expected to be a combination of fixed price and unit rates for foundations - Substantially similar to the current AC contract.
- **Both parties will have “skin in the game” exemplified by the appropriate sharing and allocation of project risks.**
 - A risk matrix will be collaboratively developed
- **Transparency is required by both parties (Nalcor’s budget and Valard/Quanta’s estimating inputs)**
 - Nalcor must be able to explain to its Board of Directors how and why we got to the proposed agreement and why it’s a great thing for its customers and shareholders
 - Valard/Quanta must be able to explain to its Board of Directors why this is a fair contract for the amount of resources, market conditions and risk involved



Negotiating Principles

- **Each party must show value to respective Boards in order to demonstrate the validity of the negotiating process**
 - Safety
 - Cost (1 contractor vs. multiple contractors for multiple sections/segment; leveraging resources from Phase 1 award; leveraging resources (e.g. facilities, equipment, personnel) from Nalcor, etc.)
 - Schedule
 - Risk Management (minimizing surprises and effectively managing project contingency)
 - Capability to complete the overhead portion of the DC Link
- **Nalcor needs assurances that there is a cap on their risks**
 - We will accomplish this objective through lump sum pricing with targets/unit prices for areas where there are significant unknowns
- **Nalcor needs assurances that there will be a commitment from Valard/Quanta for labor and supervisory/management staff on the project.**
 - Nalcor is aware that Valard/Quanta has the capability but it is concerned about the capacity to deliver with so many other projects
- **Nalcor needs off ramps from 2 perspectives:**
 - Valard/Quanta's failure to perform
 - Failure to come to agreement during direct negotiations



Negotiating Principles

- **Valard/Quanta needs assurances that its price model and estimate will not be shared with competitors.**
 - Valard/Quanta will propose an NDA to Nalcor for these assurances
- **Valard/Quanta needs assurances that if direct negotiations fail to result in an award then Valard/Quanta will be allowed to bid on all segments of each section and will be treated fairly in the process.**
- **In the expectation that we are able to come to an agreement, each party is committed to do what we can in parallel (such as the exchange and refinement of contract documents) to expedite the process**
 - We will use the contract documents from The AC Line as a starting point for contract development.
- **December 1st – Visibility into viability of process.**
 - Nalcor needs to feel comfortable by December 1st, that it is highly likely that an agreement can be made through this process



Negotiating Principles

- Schedule –
 - Flyover
 - Who should be Valard's contact for logistics?
 - Other important dates that we need to be working towards
- Issues or Questions with the process
 - Personnel involve - who all is involved?
 - Schedule
 - Vegetation Clearing Scope of Work and Pricing of this Scope of Work
 - Other Technical Questions
 - Other – Issues or Questions.