

**From:** [edover@lowerchurchillproject.ca](mailto:edover@lowerchurchillproject.ca)  
**To:** [ronadamcyk@lowerchurchillproject.ca](mailto:ronadamcyk@lowerchurchillproject.ca)  
**Subject:** CH0009  
**Date:** Friday, March 6, 2015 10:08:32 AM  
**Attachments:** [.png](#)  
[Commercial Set 3 - O'Connell Response Feb 25, 2015 R5.pdf](#)

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FYI.

Ed

### **Ed Over**

**Sr. Advisor - Commercial Strategies**

#### **PROJECT DELIVERY TEAM**

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----- Forwarded by Ed Over/LCP/NLHydro on 03/06/2015 10:08 AM -----

From: Leonard Knox <LKnox@hjoc.com>  
To: "'EdOver@lowerchurchillproject.ca'" <EdOver@lowerchurchillproject.ca>,  
Cc: Nolan Jenkins <NJenkins@hjoc.com>  
Date: 03/06/2015 08:36 AM  
Subject:

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Ed

Please see updated summary of our Target scenario's which clarifies our intent. Note in our clarification that our GA&O would be secured up to the Target Price only. If there was an increased cost beyond the target price it would not attract GA & O. I hope this clarifies our proposal.

Under this scenario, we all (client, engineer and contractor) have an incentive to join as one unified group to plan and execute the job to deliver on time and under target. We are confident that our respective teams can work very well together to accomplish this goal. We are committed to working with your group to keep the measurement simple.

We look forward to working with you to further these discussions in an effort to finalize all contract details and then get on with building the job.

Best Regards

Len

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Commercial Set 3 - O'Connell Response Feb 25, 2015 R5.pdf

COMMERCIAL PROPOSAL CLARIFICATION FORM

|                          |                           |  |
|--------------------------|---------------------------|--|
| <b>Bidder Name</b>       | <b>O'Connell/Dragados</b> | <b>Package No.: CH0009</b>                                 |
| <b>RFP Closing Date:</b> | <b>October 2014</b>       | <b>Package Title: Construction of North and South Dams</b> |

| Question No. | Set | Question No.   | Date                        | Bidder Answer / Response  | Company Clarification / Question |
|--------------|-----|--|-----------------------------|---|----------------------------------|
| 1            | 1   | <p>Dear Bidder:<br/>We wish to clarify and amend the fuel supply provisions. The current wording does not reflect our original intentions. Please delete section 8 of Appendix A2 titled Fuel in its entirety and replace with the following:</p> <p><b>8. Fuel</b><br/>Company has executed an agreement for the supply of fuel and dispensing services for the Lower Churchill Project with Woodward's Oil Limited and Utapan Fuels Limited, a joint venture ("Woodward's").</p> <p>Fuel stations will be located at the Muskrat Falls Worksite (South side of the Churchill River) and at the Woodward's terminal in Goose Bay. Diesel and gasoline fuel will be available from the fuel stations for Contractor vehicles and equipment engaged for the Work at Site for purchase.</p> <p>For the purposes of bidding, the Bidders shall assume the fuel prices are fixed at <b>\$.90 litre (not \$1.40 litre)</b> for diesel and gasoline (price includes PMT and FET, but exclude HST taxes) which shall be subject to the following price adjustment provision.</p> <p>8. (a) Escalation of Cost of Fuel</p> <p>Escalation for fuel shall be calculated using the following formula.</p> $EL_F = [H - (h \times P_b)]$ <p>In which:</p> <p>EL<sub>F</sub> = Escalation for fuel, calculated for the particular Escalation Period.</p> <p>H = Actual cost of the fuel purchased at the Company fuel station at Company's laydown area during the particular Escalation Period.</p> <p>h = actual number of litres of fuel purchased at the Company fuel station during the particular Escalation Period.</p> <p>P<sub>b</sub> = Base Index Number for fuel = \$CAD .90/litre.</p> <p>8.(b) Payment of Quarterly Escalation</p> <p>Escalation (EL<sub>F</sub>), whether an increase or a decrease, for a given Escalation Period shall be invoiced in the second month following the end of the Escalation Period; or the month at which all Index</p> | 13-Jan-2015 & Feb. 25, 2015 | <p>Bidder accepts the Escalation formula as proposed.</p> <p><b>Base Proposal :</b><br/>The bottom line adjustment from the reduction in fuel price to \$0.90 per litre is a credit of \$4,000,000. Bidders revised proposal price (i.e. based on the original Proposal Price submitted on October 22, 2014) is <b>\$304,699,055.00</b> (HST Excluded).</p> <p><b>Alternate Proposal (Appendix A3):</b><br/>The bottom line adjustment from the reduction in fuel price to \$0.90 per litre is a credit of \$4,288,000. Bidders revised proposal price (i.e. based on the original Proposal Price submitted on October 22, 2014) is <b>\$336,077,092.00</b> (HST Excluded).</p> |                                  |

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| <b>RFP Closing Date:</b> |            | <b>October 2014</b>   |             | <b>Package Title: Construction of North and South Dams</b>  |   |
| <b>Question No.</b>      | <b>Set</b> | <b>Question No.</b>   | <b>Date</b> | <b>Bidder Answer / Response</b>   | <b>Company Clarification / Question</b> |
|                          |            | <p>Numbers are available, whichever is later.</p> <p>All other requirements of the Request for Proposal remain unchanged.</p> <p>Please confirm your acceptance of the above and advise the financial impact on your proposal by end of business on January 16th. For clarity, the Company is requesting a single bottom line adjustment at this time (no adjustment to individual unit prices).</p>  |             |   |   |
| 1                        | 2          | <p>Your joint venture has submitted forty-eight commercial exceptions to our commercial conditions in Appendix A17. Many of these exceptions are a major departure from our requested requirements. We ask that you review your exceptions and either withdraw the exception or reconfirm that you wish your proposal be evaluated on this basis. It is our intent to conduct apples to apples comparison of the proposals. This may result in the Company making financial adjustments to normalize the bids.</p> <p>Please consider the following feedback on your exceptions when undertaking your review ( this is not an exhaustive list, but items that would assist us in our financial analysis):</p> <ol style="list-style-type: none"> <li>1. Your joint venture has offered a 50% performance bond, 50% labour and material bond, and 10% warranty bond. If you wish to maintain this position, please provide a breakdown of the cost. We prefer the securities outlined in the RFP document for several reasons including a belief they are more cost effective.</li> <li>2. Please provide a price adder for maintaining the \$2M deductible on the CAR policy. We understand that the insurance marketplace may be receptive to providing such cover.</li> <li>3. Your proposal is based on a \$.90 Cdn exchange rate against the USD. Please advise total value of this exposure in USD, items and how the adjustment would be calculated. An example would be useful.</li> <li>4. You have indicated that your proposal is based on certain pricing for cement and fly ash. We require additional information. As an example, how long are current prices valid? Are the prices tied to indices?</li> <li>5. For reimbursable work (Appendices A2.4 and 2.5), you have made</li> </ol> | 13-Jan-2015 | <p>Bidder acknowledges Company's concerns with the number of Exceptions in our original submission.</p> <p>A revised "Appendix A17 Exceptions" is attached with action (either the Exception is withdrawn or additional information is provided for clarity) on many of the Commercial Exceptions. In addition, one of our original Technical Exceptions is also withdrawn and is presented for your consideration.</p> |   |

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|                          |            | major adjustments to the mark-ups. This will be reflected in the apples to apples comparison. Please confirm that you wish our analysis to use these rates.  |              |  |   |
| 1                        | 3          | Please advise the dollar amount included in your proposal for trades travel costs ( air travel and ground transportation)  | Feb 25, 2015 | In our proposal we have included the following costs related to trades travel: <ul style="list-style-type: none"> <li>• Airfares – \$5,297,142</li> <li>• Ground Transportation – \$744,285</li> <li>• Misc. Expenses (i.e. hotel, meals, etc.) - \$90,125</li> <li>• <b>Total Trades Travel Cost - \$6,131,552</b></li> </ul>   |   |
| 2                        | 3          | Please advise the dollar amounts included in your proposal for a) bussing from town to the Work site, and b) bussing on site   | Feb 25, 2015 | In our proposal we have included the following costs related to bussing: <ul style="list-style-type: none"> <li>• From Airport to Work Site (for out of town trades) – \$684,223</li> <li>• On-Site Bussing - \$1,192,543</li> <li>• <b>Total Bussing Cost - \$1,876,766</b></li> </ul>  |   |
| 3                        | 3          | Advise impact, if any, on extending the validity of proposal until April 30, 2015. For clarity, Limited Notice to Proceed will be issued on or before April 30, 2015. Contract award will be after the above date.   | Feb 25, 2015 | Bidder is willing to extend the Tender Validity period to April 30, 2015 with no impact on our Proposal.   |   |
| 4                        | 3          | Kindly confirm potential cost savings opportunities based on discussions last week. We do not believe the supply of materials (concrete) by Company's Other Contractors on site is a viable option. Please remove from list. (Potential items- eliminate one plant, spillway bridge, dewatering, jet grouting, rock plug removal, borrow pits, spoil area) | Feb 25, 2015 | Order of Magnitude potential cost savings include: <ul style="list-style-type: none"> <li>• Eliminate one (1) RCC Batch Plant - @\$2.3 M (risk of downtime is to be transferred to the Company)</li> <li>• Spillway Bridge (Rental vs. Purchase) - @\$0.5 M</li> <li>• Winter Dewatering Monitor &amp; Maintenance by Company - @\$0.6 M</li> <li>• Rock Plug Removal (No requirement for Tailrace Bridge) – @\$390,800</li> <li>• Bubble Curtain Removal (Powerhouse Rock Plug Removal) - \$130,000</li> <li>• Warranty (one year only) - \$450,000</li> <li>• Alternate Borrow Pits – On the basis that the client provides alternate developed sources within a 3 km haul distance (using off-highway trucks) there would be a potential savings in the order of \$2,000,000</li> <li>• Alternate Spoil Areas - In its Proposal, Bidder has selected Spoil Areas that are in close proximity to the work in order to minimize hauling and achieve the lowest possible costs. Bidder is of the opinion that there is no potential savings to be achieved.</li> </ul> |   |
| 5                        | 3          | The Company is open to other pricing methodologies (contracting approach) which would reduce the Contractor's contingency for events   | Feb 25, 2015 | Bidder is suggesting an alternate pricing model as follows:<br>Option 1(risk sharing on staff and craft labor, contractor assumes all  |   |

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|              |     | that may or may not happen. The Company is prepared to consider accepting more of the trades labour risk as an example. Under the right conditions, the Company may accept a target price for trades labour with profit at risk up to a guaranteed maximum. This could include incentives for being under the target. If Contractor feels there is merit to such a cost model, please submit a proposal |      | <p>other cost risks):</p> <ul style="list-style-type: none"> <li>• A Target Price for labour only is suggested. The Contractor's trades and staff labour costs would be fully paid, even above the predetermined Labour Max (i.e. LMAX).</li> <li>• As the scope of work changes (i.e. through an increase/decrease in quantities or via the Change mechanism in the contract), the labour target price would be adjusted accordingly.</li> <li>• Incentive/disincentive ranges would be set and the Contractor/Company would establish and agree on savings/cost sharing percentages for each range.</li> <li>• Any risk money related to staff and trades labour that is currently carried in the Bidder's Proposal would be removed (and quantified) under this alternate pricing model.</li> <li>• In this alternate pricing model, the Contractor's potential for profit gain on labour would be capped at the LMAX and would in fact diminish proportionately as labour costs increase towards the LMAX through the predetermined ranges above the labour Target Price.</li> <li>• The Contractors General Administrative &amp; Office (i.e. GA&amp;O) on labour would be 100% secured up to the Target Price. Labour costs above the Target Price would not attract GA&amp;O.</li> <li>• With previously identified potential savings(as identified under Question #4, Set #3 above), removal of labour risk contingency and with the reduced fuel cost identified in Question #1, Set #1 above, the order of magnitude reduction in the overall original Proposal Price is in the 7% range.</li> </ul> <p>Option 2(risk sharing on craft labor only, contractor assumes risk on all other costs):</p> <ul style="list-style-type: none"> <li>- With previously identified potential savings(as identified under Question #4, Set #3 above), removal of craft labour risk contingency only and with the reduced fuel cost identified in Question #1, Set #1 above, the order of magnitude reduction in the overall original Proposal Price is in the 5.75% range.</li> </ul> <p>Option 3(risk sharing on all costs):</p> <ul style="list-style-type: none"> <li>- With previously identified potential savings(as identified</li> </ul> |                                  |

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| <b>Question No.</b>      | <b>Set</b> | <b>Question No.</b>  | <b>Date</b>  | <b>Bidder Answer / Response</b>   | <b>Company Clarification / Question</b> |
|                          |            |  |              | <p>under Question #4, Set #3 above), removal of labour and all other risk contingency and with the reduced fuel cost identified in Question #1, Set #1 above, the order of magnitude reduction in the overall original Proposal Price is in the 8.5% range.</p> <p>Note: Further details will be provided depending on which option the client wishes to pursue. The potential savings increase depending on risk sharing mechanism accepted by the client.</p> |   |
| 6                        | 3          | If Contractor is submitting an alternative pricing model, please advise with timeline required to submit proposal. | Feb 25, 2015 | Bidder would need approximately three (3) weeks to finalize and submit an alternate pricing model.  |   |
| 7                        | 3          | Please provide a red line of the Articles and Ex 2 showing your suggested changes.                                 | Feb 25, 2015 | Bidder will provide a red line of the Articles and Exhibit 2 showing suggested revisions by Tuesday, March 10, 2015.  |   |