

From: [Derek Tisdel](mailto:Derek.Tisdel)
To: edover@lowerchurchillproject.ca; kevin.ellerton@barnard-inc.com
Cc: bcole@pennecon.com; ronadamcyk@lowerchurchillproject.ca
Subject: RE: Revised Proposal
Date: Tuesday, March 10, 2015 10:57:32 AM
Attachments: [.png](#)
[.png](#)
[Muskrat Falls VE Pricing Breakdown 3-09-15.pdf](#)
[BPJV Revised Proposal March 10.pdf](#)

Hi Ed,

Kevin is out until this Thursday, March 12th. Attached are the documents we discussed providing you yesterday.

The first attachment is our Revised Proposal with the G&A cap corrected.

The second attachment is our reconciliation of our proposed cost reductions. You'll note the Revised Fuel Adjustment is the credit amount which changed from our previous submittal. The Revised Fuel Adjustment now takes into consideration our Revised Proposal - Value Engineering & Cost Savings.

We appreciate your time in discussing this with us yesterday. Please let us know if there is any further information we can provide.

Thanks,

Derek Tisdel

BARNARD

People building for People.

Derek Tisdel

Vice President & Operations Manager

derek.tisdel@barnard-inc.com

Phone: (406) 586-1995 | **Cell:** (406) 579-4231

701 Gold Avenue | Bozeman, MT 59715 | **barnard-inc.com**

From: EdOver@lowerchurchillproject.ca
[mailto:EdOver@lowerchurchillproject.ca]

Sent: Sunday, March 08, 2015 9:15 AM

To: kevin.ellerton@barnard-inc.com

Cc: bcole@pennecon.com; Derek Tisdell;
RonAdamcyk@lowerchurchillproject.ca

Subject: Re: Revised Proposal

Kevin,

Thank you for this proposal.

The technical team will need to determine the merits of the cost savings opportunities.

I have completed an initial review of your proposal so please consider these comments/questions as preliminary. It is my attempt to obtain better clarity on your proposal. A reply would be appreciated by the end of the week.

I would appreciate receiving a reconciliation of the proposed cost reductions against your proposal price. Suggest your team starts with the proposal price and shows each reduction or increase separately. I suspect that your team has included staff travel costs (\$3.0M) in your revised "Initial Proposed Cost". I had thought your JV had decided to assume this risk?

I understand that your team has proposed capping G & A at \$11.425M. Please show how this number has been calculated.

It is our understanding that the (profit)fee is a fixed amount (fee pool). If your actual labour cost is less than the target labour cost, you would receive all of your fee plus 50% of any labour cost underrun. Conversely, you would be responsible for 50% any labour cost overrun up until the (profit) fee had been eroded.

The G &A fee would be paid on the actual labour costs up to the cap.

Under the proposed target model, the parties would need to agree on an adjustment mechanism for scope changes, and quantity adjustments, i.e. if the installed quantities are greater than the estimated quantities the target price would be adjusted?

Ed

Ed Over

Sr. Advisor - Commercial Strategies

PROJECT DELIVERY TEAM

Lower Churchill Project

t. 709-733-4402 c. 709-730-2501

e. EdOver@lowerchurchillproject.ca

w. muskratfalls.nalcorenergy.com

From: "Kevin Ellerton" <kevin.ellerton@barnard-inc.com>
To: <EdOver@lowerchurchillproject.ca>,
Cc: <bcole@pennecon.com>, "Derek Tisdell" <derek.tisdell@barnard-inc.com>
Date: 03/06/2015 07:15 PM
Subject: Revised Proposal

Hi Ed,

Please see our attached revised proposal. Have a good weekend,

please feel free to call me on my mobile if you have questions.

Thanks

Kevin

BARNARD

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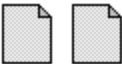
Kevin Ellerton

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[attachment "BPJV Revised Proposal March 6.pdf" deleted by Ed
Over/LCP/NLHydro] 

Original Proposal Cost	\$ 315,797,500.00
Revised Fuel Adjustment per Question 1 Set 1 of the Commercial Proposal Clarification Form	\$ (3,363,664.00)
RCC optimization Items	\$ (9,400,000.00)
Combining Aggregate gradations and Screening in lieu of crushing	\$ (2,700,000.00)
Elimination of Jet Grouting	\$ (4,800,000.00)
Elimination of Apprentice's	\$ (4,800,000.00)
Revised Upstream Cofferdam	\$ (4,000,000.00)

Revised Proposal Cost \$ 286,733,836.00



March 6, 2015

Ed Over
Sr. Advisor – Commercial Strategies
Muskrat Falls Corporation
350 Torbay Road Plaza, Suite 2
St. John's, NL, Canada
A1A 4E1

Subject: RFP No. CH0009 – Value/Engineering & Cost Savings

Dear Mr. Over:

In follow-up to our phone conversation on February 27, 2015, Barnard-Pennecon J.V. (BPJV) is pleased to offer the following cost savings for the project.

Cost Savings identified:

1. The optimization of RCC per the revised RCC specifications, including the elimination of the CVC batch plant, minimized cooling requirements, battered DS slope vs. stepped, drive-on/-off the lift, one mixer vs. two mixers, and elimination of saw-cutting of the test section will reduce the overall cost of the project by \$9,400,000.
2. By combining gradations and screening in lieu of crushing, we can reduce the project cost by \$2,700,000. Attached is the breakdown of our combined gradations and quantities. Based on our revised plant design, we still provide for 90 percent of the crushed materials to flow through an impact crusher. This credit covers the cost of raking material from the GD8 pit in lieu of crushing.
3. The elimination of Jet Grouting price items 49 through 57 will reduce the overall contract by \$4,800,000. The remaining difference needs to remain to cover project indirect items.
4. Apprentice time in our estimate was valued at \$4,800,000. We would credit this provided a "no shadow" clause is included in our contract.
5. We offered a sketch of a revised upstream cofferdam for your review. Should we receive a revised design that matches the quantities of our sketch, we see an order of magnitude savings of +/- \$4,000,000.

In addition to the above, BPJV would like to further expand on a few items that have been discussed in previous conversations regarding contractual obligations.

Contractual Items:

1. The upfront payment provision can be relaxed, provided Nalcor and BPJV mutually negotiate an acceptable payment schedule. Since there is a significant cost associated with upfront infrastructure needs, it is important to BPJV to remain cash neutral on the project.
2. BPJV is willing to provide a three-year warranty; however, the warranty language must be written to match our proposed Labour Target Price structure.
3. Labour Target Model – BPJV and Nalcor have discussed proposals to agree on a labour target price model for this project. Below is a breakdown of that model. G&A is paid on actual labour dollars. BP JV would cap the project liability on G&A at 135%. Fee would grow or erode at \$0.50 per dollar over or under the labour target. Once the fee is eroded, there is no further liability of BPJV.

The added incentive to gain 50 cents for every dollar of savings will drive the BPJV Team to optimize the work planning and project execution. With the recent experience by Pennecon Heavy Civil Ltd on the various projects and SPO agreements, coupled with the change in the labour market, we are confident we can work with the respective unions and procure a productive workforce for this project.

Further adjustment of the model and Initial Proposed Cost will come from final negotiations of the contract and design details. Based on our original proposal and cost savings adjustments included herein, our revised proposal is valued at \$286,733,836.

Labour Target Price with Fixed Equipment, Materials & Subcontractors			
Labour Target Price	\$	86,091,182.00	
10.6% G&A Fee	\$	9,125,665.00	G&A capped at 35% of Labour Target \$ 11,425,000.00
8.3% At Risk Fee	\$	7,145,568.00	Reward/Risk = \$0.50 per dollar \$ 12,319,647.75
Equipment, Materials, Subs, Other	\$	184,371,421.00	
Initial Proposed Cost	\$	286,733,836.00	

With regard to our proposal, BPJV would like to reiterate the quality benefits it is providing with these suggested changes.

Quality Advantages:

1. BPJV is offering a battered downstream face on the North Dam. We will utilize facing concrete (guaranteed to have air entrainment) on the face, and will provide a structure that will stand the tests of freeze-thaw and ice flows better than the current design.
2. BPJV's ideas are driven in a way to reduce labour costs and jurisdiction boundaries to provide for cost and schedule certainty. We intend to utilize slope placement method and eliminate the grout-enriched facing. This reduces the size of crews needed and downtime between lifts.

In closing, we will provide an experienced North American staff that has the expertise necessary to properly execute the project. We have excellent cost control and project management systems that even the world's largest competitors cannot match. Nalcor will know exactly where the project is at all times, without surprise.

We look forward to continued discussions.

Kind Regards,



Kevin Ellerton
Barnard-Pennecon J.V.