



**Labrador-Island Link Limited Partnership**  
Lower Churchill Project  
350 Torbay Road Plaza, Suite No. 2  
St. John's, NL  
Canada A1A 4E1

To the attention of Mr. Darren DeBourke

Date: 01-Mar-2016

**O/Ref:** LTR-CD0501-AG-LILLP-0206

**Y/Ref:** LTR-CD0501-LILLP-AG-0201 dated 03-Feb-2016

LTR-CD0501-LILLP-AG-0167 dated 26-Nov-2015

LTR-CD0501-LILLP-AG-0177 dated 14-Dec-2015

**Agreement No:** CD0501 – Converter Stations and Transition Compounds

**Subject:** Contractor Performance and Summary of Meeting held on 27-Jan-2016

Dear Mr. DeBourke,

Contractor acknowledges receipt of Company letters and summary pertaining to the meeting held on 27-Jan-2015 in La Prairie discussing Contractor's performance.

Contractor is facing challenges in the Projects execution and has launched relevant actions to improve its overall performances, as part of its continuous improvement process.

Contractor confirms its commitment to working with Company to ensure delivery of the Project in a collaborative and positive environment and in the interests of the Projects.

The Project Management Team is fully accountable to deliver the Projects as per Contract schedule and as per Contract requirement.

Nevertheless, for the sake of clarity, Contractor confirms the followings:

**1- Safety Moment/Values Moment**

Contractor confirms that it has always been and will continue to be committed to values such as teamwork, open communication, accountability, safety, respect and dignity, honesty and trust.

**2- Introduction & purpose / Context for meeting**

With regard to Company's serious concerns in Contractor's ability to manage and execute the works, Contractor reminds that it has already expanded significant efforts to mitigate the delays due to the extensive discussions with Company to

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freeze the technical requirements, quality requirements, safety requirements, procurement activities,...

As mentioned during the 27-Jan-2016 meeting, Contractor has organized on 22 December 2015 a RoE (Return of Experience) gathering around 45 persons representing all functions/fields (Project Management, Engineering, Procurement, Construction, Schedule, Quality, EHS, etc...) and covering several workshops: Schedule SOP, Risks and claims management, communication & reporting, Organization.

The ROE feedback has been communicated to Company on 31-Dec-2015 through an updated Project organization Charts (LTR-CD0501-AG-LTCLILLP-0120 & AG-LILLP-0193).

### **3- Planning/Scheduling/Overall Management**

As pointed out in Company letters, on January 2016, Contractor disclosed to Company an in progress schedule integrating some construction sequences which has created some intensive discussions with Company.

The Schedule Review with the Project team is organized on monthly basis.

As mentioned in many occasions, in particular during the past schedule workshops and during others reviews, Contractor wishes to highlight that from the start of the Project the appropriate scheduling tools, such as Control Schedule were agreed with Company and are available to monitor adequately the progress of the activities performed by Contractor.

On October 2015, the Project schedule has been successfully tested by Company team. Company confirmed, on 12 Feb 2016, the Project schedule was sound and solid until up to December 2015.

Contractor confirms again to Company that Contractor is currently reviewing the sequences and interfaces constraints to be integrated in the Project Schedules reflecting the Construction sequences. On that basis, the critical and sub-critical paths of the Project will be duly analyzed. Finally, the related S-curves and corresponding tables and narrative are/were produced on the basis of the now agreed progress measurement procedure according to the Exhibit 3.



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#### 4- Completion/Commissioning

Contractor has already presented to Company for approval two candidates for the Completion Manager position respectively on Apr-2015 (LTR-CD0502-LTCLILLP-0020 dated 13-Apr-2015) and on Nov-2015 (LTR-CD0502-LTCLILLP-0084&0095 dated 06-Nov-2015 & 25-Nov-2015). However, the two candidates were rejected by Company.

Moreover, to fully understand Company's expectations, Contractor attended the PCS database meeting on 14-Dec-2015 with Company.

Contractor has proposed to Company on 21- Jan-2016 a new candidate which has been immediately refused during the 27-Jan-2016 meeting. Please note that Contractor has contracted, on a temporary basis, this consultant to support and prepare immediately some Completion activities and not subject to Company approval.

As well, on 27-Jan-2016, Contractor has presented to Company another internal candidate who has been accepted on 15-Feb-2016.

On 12-Feb-2016, in St John's, Contractor has presented to Company the Completion strategy, processes, templates, resources and organization, preliminary high view schedule at the Company satisfaction.

Contractor is progressing and is preparing the related Completion documentation and inputs for the PCS database.

#### 5- Construction

Contractor does not agree with Company's statement and has a different position and view of the situation at sites.

With regard to the sites project execution, Contractor provides hereafter a sequence of events that were not under Contractor's control which led to disruptions and delays:

- Late issuance of the LNTP by 2 months delayed due to layout optimizations
- Site Preparation issues at SOP and CFA (boulders and bedrock more than expected)
- IFC drawings readiness: Delayed mainly by the layout optimizations at SOP and MFA.
- Labor relations issues: Company shall support Contractor in the management of any agreements with the construction trade unions.
- Lack of CWC efficiency to get manpower at site
- Lack of CWC production
- Winter Works and low productivity



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- Lack of completion and mitigation plans from CWC

From the earlier stages of construction, Contractor acting as Company's CW engineer, informed Company on the difficulties encountered with the CWC. In this regard, Company and Contractor met on September 2015 to undertake the proper actions surrounding such matters.

Then, starting from 15-Oct- 2015, Contractor and Company Project Managers met with CWC on the MFA and CFA sites on bi-weekly basis until end of December 2016 to review the CWC schedules and progress of the Works, ensure CWC actions plans are implemented, and support the CWC for manpower reinforcement.

QA/QC organization has been deployed on all sites to ensure that all works are completed as per Contract quality requirements through participation to the daily meetings, reviews/approval with Company of the method statements and ITP's, sites presence and inspections. Projects QA/QC Managers are supporting the sites QA/QC through monthly visits.

With regard to quality issue related to the GIS in MFA, the quality process has been followed including approval with Company of the method statements, ITP's, etc... This subject is handled separately and will be managed over the NCR process.

Field engineers have been deployed in MFA/CFA and in SOP. They are supported by a coordinator in Contractor La Prairie's office to liaise with engineering and sub-contractors and also to ensure consistent design and solutions for all sites.

Contractor refutes the statement related to the poor relationship with CWC. As such, SQ are properly managed and answered. No SQ have delayed or blocked any critical activities as they are pro-actively managed with the CWC and Contractor engineering group.

CON and CHR process with CWC are processed on time when the necessary backup information and process are followed. On that aspect, CWC have difficulties to apply the Contract and delay the overall process. Contractor is issuing as well on regular basis letters to CWC copy to Company with CHR status.

Notices of disputes have been used by the CWC inappropriately. It has been discussed with the CWC and agreed that high management meetings will be held on monthly basis, at least, to resolve any dispute raised without prior notice and hindering the progress of the works.

For MFA&CFA CWC, Contractor is handling weekly meetings with CWC to follow the progress at sites and review all SQ, CON, letters.

For SOP CWC, Contractor arranged a meeting with CWC and Company and demonstrated that the issues raised by CWC are mainly due to CWC's failure to comply with the Agreement and the contractual provisions. Hence, Contractor



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acting as Company's CW engineer is defending in a fair and diligent Company's rights.

Finally, regular meetings are organized between Contractor, Company and CWC for MFA&CFA. Regarding SOP, Contractor plans to schedule a monthly meeting with the CWC top management.

The updated Construction plan and sequences have been presented on 11-Feb-2016 during the schedule workshop and integration of the related sequences in the Project schedule is ongoing.

The Construction Management Plan will be issued on March 2016 to integrate all remaining activities.

For CFA Ext., Construction plan and scheduled outages have been presented and will be confirmed shortly. As agreed with Company, it will be handled separately as it has to be managed with CFLCO.

#### 6- Engineering

The performance of engineering is calculated on the approved documents and includes submission of documents to Company on timely manner, revision cycle and approval cycle on timely manner. It is the image of our common performances i.e. efficiency to submit documents (Contractor) and to comment & revise the document only once (Company).

Months ago, Contractor and Company have identified the need of face to face approvals sessions, and, immediately, this efficiency process has been implemented within Contractor and Company organizations: M. Mariage is coordinating/monitoring the MDL for Contractor and S. Power has been appointed as Company coordinator to expedite the approval process.

To start, Contractor has proposed, organized the approval sessions in Montreal with Company. It has been quite efficient and engineering teams were working together on face to face to succeed. The aim was to review a batch of documents, gather and agree on all comments, then integrate them and issue the documents to Company to reach Code 1 for the next revision.

The results of validated documents are good but were not achieved as fast as expected. Some documents obtained several additional sets of Company comments, and as a consequence additional revisions and some are still not approved today.

In addition, constraints and events such as the layout optimization at SOP and MFA, Harmonics Impedances Sectors change, DC capacitor change, and other ongoing



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changes have significantly impacted the issuance and the re-submission of a number of engineering documents which accounts for the low Engineering progress. Company has systematically been informed about potential schedule impacts.

Moreover, a long lead time to agree on the technical solutions for the changes and options has hindered the resolution of some issues and the ensuing issuance of Purchase Orders to ensure the slots of manufacturing.

This has led to a situation that ultimately impacts the schedule on various work fronts, one of the impacts related to the Harmonic Impedance Sectors having been substantiated and submitted to Company in December 2015 for ensuing consideration of revised completion dates.

Additionally, based on the deliverables status given by Company on their letter, Contractor has some reservations and point out that this is a snapshot, not representative of the engineering status:

- 131 of 190 Building Fit Out (Package 3) deliverables are code 1 : Engineering Team is currently working to issue the remaining deliverables before the Package 3 award. The concept is to go at RFP stage with advanced documents and award the contract with IFC's.
- 1 of 9 AC filter PO deliverable are Code 1: Contractor reminds that those documents were subject to repeated comments related to the CHO-0017 which was only issued on 03-Dec-2015 for the placement of the PO. Company instructed Contractor to place the PO's for the main equipment to secure the Project Schedule.
- 25 of 42 Transition Compound documents are code 1 – This status is due to the layout changes and modifications occurred. Further details are provided in a letter from Contractor (LTR-CD0501-AG-LILLP-0176 dated 17-Dec-2015) and Contractor does not agree with Company statement.
- 62 of 75 Structural Steel PO deliverables are code 1: Contractor suffered from delay on the PO placement and finalising documents due to extra-contractual requests made by Company concerning gantry loading, structure steel type & grade, additional testing such as charpy testing despite the fact Contractor complied with the standard and regulations.
- 8 of 30 P&C FAT#1 deliverables are code 1: Approval sessions and a planned workshop are still ongoing to close outstanding points.

Moreover, Contractor reminds Company on various meetings and discussions, Contractor exposed its concern regarding the number and type of comments received, the number of revisions needed before reaching the Code 1. In that respect, Company



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needs to provide all of its comments during its first review highlighting those critical comments which comments shall be specific and not general. Additionally, Company should not unreasonably withhold Code 1 and use the code 2 to allow flexibility and progress.

For the Concession requests, Contractor has limited voluntarily that process as the engineering effort and backup information requested by Company to move forward was excessive and resolution time / decision uncertain.

Contradictory requirements between Contract specifications have led also to very long finalization of solutions and technical requirements, request of additional workshops and have greatly impacted the Project engineering performances i.e. creating inefficiency and impacts on costs and time.

#### 7- Procurement

Contractor has appointed an expediting function to coordinate engineering, procurement and construction monitoring the CARE process with the quality group.

Procurement dashboards have been implemented since few months and share with Company to proactively manage the overall procurement phase, starting from RFP to PO placement until delivery. It is linked to the engineering deliverables. On weekly basis, a full review is held with PM's, Procurement, Engineering and Quality and is led by the Expeditors. Procurement dashboard review with Company will be implemented shortly on regular basis.

The GIS situation is a clear misunderstanding of the teams and led to implementation of the manufacturing release process, which has been launched on January 2016. Full deployment is ongoing.

Contractor takes this opportunity to highlight to Company that manufacturing slots are planned and frozen long ahead of schedule and include little flexibility. Late approvals of engineering deliverables could therefore significantly impact project completion if Contractor were not anticipating and implementing necessary mitigation actions.

With regard to the Valves issues, Contractor informed Company on the concerns and, with Company, is currently mitigating the actions.

While for the manufacturing of substation equipment at La Prairie, Contractor reminds Company that the Company inspections were performed with the relevant documentation.

For the packages under the Exhibit 17, Contractor worked jointly with Company and explained for each package the strategy in Jan-2015. As such, Contractor is adjusting the strategy taking into account the schedule progress and events. Thus, Company



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cannot neglect the fact that Contractor is undertaking the efforts to move forward with all the CW packages to ensure the earliest delivery taking into account changes to the work.

For the installation packages, Contractor has presented the overall Construction strategy and situation on 11-Feb-2016 in St John's. Contractor received offers for SOP and is analyzing the offers, while for MFA and CFA the RFP is ongoing.

### 8- Organization/People

The Project organization has been changed and adapted to the Project needs and timely communicated to Company. Roles and responsibilities have been discussed and validated with Company.

Nevertheless, it has been recently reviewed and will be communicated to Company when finalized.

Note the main changes in the project organization:

- The Procurement will be reinforced with additional Expediting Resources led by C. Mesnard.
- The Project Engineering monitor the CW Engineering which will no longer be under the responsibility of the Construction Team
- Reinforcement of Construction Team at site by the recruitment of field engineers at sites.

Given these circumstances, Contractor takes note of Company's concerns and will take necessary action to allay these concerns. Contractor looks forward to the successful completion of the projects and relies also on Company's support and consideration of the events under its responsibility.

In the meantime, Contractor confirms that it remains fully committed and willing to continue discussions in a spirit of co-operation, respect and mutual goodwill.

Yours Faithfully,

A handwritten signature in black ink, appearing to be 'Thierry Martin', written over a horizontal line.

Thierry Martin  
LCP Project Director  
Encl.: N/A