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To:	Michael Kennedy; David Leather; Paul Hickey
Cc:	David Steele
Subject:	Meeting notes
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Attachments:	Notes from Meeting with Stan Marshall 08.06.2016.docx

First draft of notes from meeting with Stan, let me have your comments, thanks.

Notes from Meeting with Stan Marshall

8th June 2016

Paul Hickey, David Leather, Mike Kennedy, Tim Calver

Stan opened up with his view on project and status:

- The project should never have been built.
- This wasn't a utility project as the home demand was only a fraction of the capacity of the project. As such, it was a bet on the high power price available for exports and the market has gone against this bet
- Including interest, the cost of the project is now expected to be c $12bn (Stan then stepped through 9.1bn capex, 1.6bn interest, 0.6bn bond payments, 0.1bn overhead which totals 11.4bn)
- Demand in NL is now much lower than assumed at the time of sanction due to the economic downturn (the assumed 2020 demand level won't now be reached until 2036)
- The cost per kwh is massively higher than the basis on which the project was sanctioned due to i) capital cost increase ii) greater volume needed to be sold and iii) the lower than assumed sales price for this export volume.
- Stan quoted some numbers related to the increase in electricity rates resulting from the project (I couldn't reconcile all of these, perhaps others have better notes)
    - Cost per kwh at sanction 9.37c
    - Cost now from capex and delay 16c
    - Only 80% of power available as 20% goes to Emera, so the above numbers become 12.5 and 21c
    - When you factor in that 50% of the power will be sold at 3c and load this loss onto the remainder, the actual cost of the power to the NL ratepayer is more like 50c
- The cost of power from MF will be unaffordable and will negatively impact the provincial economy. Stan's approach is to:
    - Get the project on the best possible execution path. There is limited ability to reduce cost, but further increases and delays must be avoided
    - Increase the value of the project, especially exports to reduce the economic burden on the province

Nalcor organisation

He has changed the 9 VP direct reports which Ed had to 5 Exec VP report to him as follows:

- Gilbert Bennet with responsibility for Muskrat Falls Power Generation
- John McIsaac with responsibility for the transmission assets of Lower Churchill Project
- Derrick Sturge as CFO – he has challenged Derrick to get closer to the business and better use his resources
- Jim Keating with responsibility for all admin functions
- Jim Haynes who joins on a 2 year contract with responsibility for the traditional regulated hydro business

So in effect he has split the project into 2. His rationale is that it was too big, needs more focus from senior execs and the 2 parts are anyway 1 year apart and not closely connected.

The split will happen over the coming months (e.g. common functions) to minimise disruption.

Project resources

Stan offered some thoughts on the project resources:

- He was positive about Gilbert Bennet and how he had responded to the challenge and his new role. He appears to have confidence in him
- Overall, he has found a lot of good people in the organisation and seems committed to use these resources to complete the project
- He does expect to strengthen some areas of engineering and project resources

SNC Lavalin & Westney

Stan has met with SNC Lavalin to get their perspective on the project and execution challenges. He explained that in 2013, when their role was changed, they provided a document to Ed detailing all the risks which they expected to impact the project – this was rejected by Ed.

Stan has asked SNC Lavalin to help prepare for a plan B in the event that Astaldi do not complete their scope of work.

Stan has asked SNC Lavalin for a proposal to reengage in their role as EPCM – he expected to receive this at the end of the week.

Westney are still clearly an integral part of the strategic and analytical thinking on the project and Stan met with them last week.

Astaldi

The performance of Astaldi before the accident was okay – consistent with their performance in 2015.

Stan agrees that the best path is to for Astaldi to complete the work. He understands that Astaldi have borne no financial burden from this project – this relates to other jobs and their strategy for concession investments.

Stan will demand that Astaldi take self-help measures and bear the pain of losses on the job before providing any compensation above the contract – he talked loosely about 2-3 months of losses.

Stan was meeting with the CEO of Astaldi on 9th June. He is open to whether Astaldi will/can complete the work and he is actively developing a plan B option.

Way Forward

Stan committed to providing an updated cost and schedule forecast to GNL and the public end of June. He is on track to do this:

- Nalcor Board on 14th June

- Cabinet on 23rd June

Expectation is for a cost c 9.1bn, 2 year delay to the powerhouse and 1 year delay to the transmission assets.

Stan is also focused on providing an honest explanation to the public of the problems with the project and what can be done now in the best interests of the Province.

The average retail rate is currently 13c. With MF and no Nalcor profit, this rises to 18c. Stan is clear that Nalcor can't make a profit form this so there will be no dividends to the government. The rates must be kept as low as possible to minimise the impact on the local economy.

He has opened up dialogue with neighbouring provinces and utilities with a view to increasing the value of the project through e.g. renegotiated export structures.