

From: Paul Hickey
To: [David Steele](#); [Michael Kennedy](#)
Subject: Meeting with Charles Bown
Date: Monday, May 15, 2017 11:08:06 AM
Attachments: [image001.gif](#)
[EY Independent Assurance - May 2017 v2 \(Final\).pptx](#)

Guys,

I dropped to amended final deck (copy attached) off to Charles personally @ 10:00 AM. We chatted for a few minutes and he said:

- 1) He is ready to move forward but he has to get it through the Premier's office first.
- 2) He asked if the deck included team members' names. I told him it did not because of the on again off again history of trying to get this started,. I told him we felt we could not go back to our teams again to lock-down names until greater finality has been established. He said he understood.
- 3) He then said that he has reviewed our invoices from the last piece of work (Interim Report) and he has some observations/questions - some good, some not. (I suspect this relates at least in part to point 2 above, i.e., using expensive UK resources vs less expensive Canadian resources, along with related travel costs).

I told him I am around all week and will make myself available to address any questions he might have with the caveat that any questions re last year's invoices would likely require Steele's input which could increase response time. He seemed happy that I was available.

I will keep you posted if and as I hear from him.

Paul



Paul D Hickey KC*SG, CPA, CA, CIRP
Senior Vice President | Transaction Advisory Services

Ernst & Young Orenda Corporate Finance Inc.
Fortis Place, 5 Springdale Street, Suite 800, St. John's , NL A1E 0E4 Canada
Direct: (709) 570-5404 | Mobile: (709) 685-4998 | paul.d.hickey@ca.ey.com
Fax: (709) 726 0345 | Home: (709) 437-5179 | EY/Comm: 8647286
Melanie Brooks | Phone: (709) 570-8235 | melanie.brooks@ca.ey.com

Muskrat Falls Project Independent Assurance

Work phases and fee estimate for F2018

May 2017

Independent Assurance

Objective

CIMFP Exhibit P-03395

Page 3

- ▶ The objective of the work phases and activities described on the next page is to assist GNL's Oversight Committee (OC) in conducting its oversight mandate for the Muskrat Falls Project.
- ▶ The following are prerequisites to EY starting its fieldwork:
 - ▶ Receipt of all information requested from Nalcor.
 - ▶ A confirmed schedule of meetings between EY and key representatives from Nalcor and GNL.

Independent Assurance

Fiscal 2018 Activities

CIMFP Exhibit P-03395

Page 4

Phases*	Timing	Activities/Outcomes	Fee**
I. Independent Assurance mobilization and reporting on the status of Nalcor's and GNL's implementation of the recommendations from EY's April 2016 report (the "Interim Report").	June – July 2017 (6 weeks)	<ul style="list-style-type: none"> ▶ Through a series of interviews and a review of documentation: <ul style="list-style-type: none"> ▶ EY to obtain status of Nalcor's and GNL's implementation of the recommendations from the Interim Report. ▶ EY to obtain a preliminary update from GNL / Nalcor on project status and key issues. ▶ EY to issue a report on status of Nalcor's and GNL's implementation of the recommendations from the Interim Report. 	\$250K
II. Ongoing quarterly reporting: <ul style="list-style-type: none"> - Quarter ending 30 Sep 17 - Quarter ending 31 Dec 17 	Month following quarter: <ul style="list-style-type: none"> - Oct 17 - Jan 18 	<ul style="list-style-type: none"> ▶ EY to perform and report on ongoing independent assurance procedures with respect to project processes, forecasts, risk management and governance. <ul style="list-style-type: none"> ▶ Week 1: planning, documentation receipt and review. ▶ Week 2: onsite meetings (as required), ongoing documentation review/analysis. ▶ Week 3: onsite meetings (as required), ongoing documentation review/analysis, results review and discussion with Nalcor. ▶ Week 4: development and delivery of report to OC. 	\$175K per quarter

* The Phase I scope does not include a detailed assessment of the reasonableness of cost, schedule and associated risk.

** The above fee estimates are for professional services and do not include taxes (HST) or out of pocket expenses.

Appendix A – Overview of Independent Assurance for Muskrat Falls

CIMFP Exhibit P-03395

Page 5



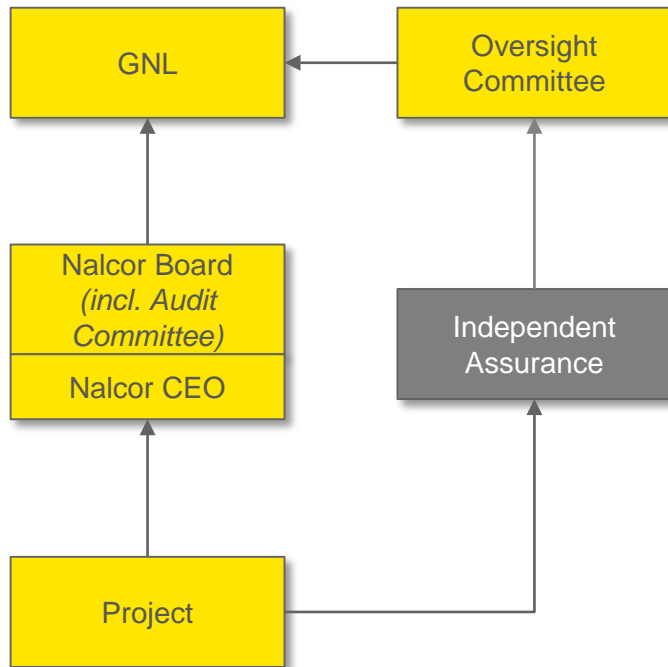
Independent Assurance for Muskrat Falls

Context

CIMFP Exhibit P-03395

Page 6

Independent Assurance is a forward-looking collaboration between all key stakeholders.



Independent Assurance is generally part of a “3 lines of defence” assurance model, in which:

▶ **Line 1 – Management**

- ▶ Responsible for delivery to scope, budget and schedule
- ▶ Assurance provided through self-managed quality control and advice from 3rd party specialists procured to manage risk through the project’s lifecycle

▶ **Line 2 – Project Assurance (internal)**

- ▶ Supporting and reporting to management
- ▶ Flexible resource to provide assurance that key risk areas are being effectively managed – can include qualitative technical reviews of project information, processes, governance, resources and systems
- ▶ Provide objective interventional advice, challenge and oversight to the efficiency and effectiveness of the program
- ▶ Reporting link to the 3rd line of defence to maintain integrity

▶ **Line 3 – Independent Assurance**

- ▶ Provides an independent and systematic evaluation of the project’s risk management framework including governance, processes and controls
- ▶ Independent assessment of the project’s reported cost and schedule forecast and related risks
- ▶ Audits the compliance of Lines 1 and 2 to the risk framework
- ▶ Generally a predetermined cycle of periodic reviews

Appendix B – Recommendations from EY’s April 2016 Interim Report

GIMFP Exhibit P-03395

Page 7



Recommendations from Interim Report

CIMFP Exhibit P-03395

Page 8

Recommendations:

- ▶ Section 1.6 of EY Interim Report
 - ▶ the Project should revise its planning and forecasting processes to explicitly include the regular reporting of a fully risk-adjusted final forecast of cost and schedule
 - ▶ the Project contingency should make appropriate allowances for all risks, including strategic, at a confidence level reflecting stakeholders' required cost certainty. EY recommends that consideration be given to the use of a more conservative confidence level for setting Project contingency, based on a thorough risk assessment
 - ▶ the sufficiency of the Project contingency should be reviewed quarterly to assess whether it appropriately covers all risks, taking account of the effectiveness of mitigation plans and the likelihood of risks crystallizing
 - ▶ there should be separation of the Project contingency into an amount to be managed by the Project team and an amount to be managed at a higher level of governance
- ▶ Section 1.8 of EY Interim Report
 - ▶ Project governance and independent oversight should be re-evaluated by the Provincial Government and strengthened at the Project, Nalcor Board and Provincial Government levels
 - ▶ Project reporting should be enhanced to support senior management focus on key risks and issues, to communicate more clearly how key risks are reflected in the forecast and to enable more effective Provincial Government oversight

Appendix C – Interview and Document list

CIMFP Exhibit P-03395

Page 9



Interview list and initial documents required for mobilization

CIMFP Exhibit P-03395

Page 10

Interview list

- ▶ Orientation discussions with Minister of Energy and Natural Resources, Head of Oversight Committee and Nalcor CEO and Chair of Audit Committee
- ▶ Project Director for Muskrat Falls and Transmission Lines projects
- ▶ Project Component Managers
- ▶ Project Controls Lead
- ▶ Project Finance Lead
- ▶ Other Project team members with significant involvement in the planning, forecasting, risk management & reporting processes

Documentation required for the start of the review:

- ▶ Documented response to recommendations from Nalcor
- ▶ Any relevant updated project process documents (e.g. risk, forecasting, contingency management etc.)
- ▶ Recent reports evidencing risk adjusted final forecast reporting
- ▶ Documents detailing current cost and schedule forecast
- ▶ Documentation of most recent QRA processes
- ▶ Quantitative report on contingency calculation and management
- ▶ Documented response to recommendations from GNL
- ▶ Any documents relating to updated governance processes

EY | Assurance | Tax | Transactions | Advisory

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity.

© 2017 Ernst & Young LLP.
All Rights Reserved.
ey.com