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Subject: Ministerial Briefing.pptx
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Attachments: [Ministerial Briefing.pptx](#)

Muskrat Falls Project

EY Follow up review

Ministerial briefing

25 August 2017

Scope overview:

- ▶ EY was retained to assist the Provincial Government's Oversight Committee (the OC) for the Project in assessing the status of the implementation of the Recommendations (the Engagement)
- ▶ The Project's most recent cost and schedule forecasts of May 2017 and the draft June 2017 (the June 2017 Forecast) were given due consideration by EY in conducting the Engagement; however, the scope of the Engagement and this Report do not include an assessment of the reasonableness of those or any other forecasts

General comments:

- ▶ Extensive interviews conducted documentation reviewed

- ▶ Tone from the top/culture

- ▶ EY observed the following material changes in the Project since the issuance of the Interim Report. These changes have reduced the Project's risk profile and provide the opportunity for the Project to achieve an improved level of certainty regarding cost and schedule to complete
 - ▶ Material changes are noted from both the Government/OC and Nalcor

- ▶ The Project retains a high level of inherent risk:
 - ▶ period with an expected high planned spend rate; period of intensive activity involving many contractors and interfaces between them; initiating a series of complex and significant activities; and the difficult winter season is approaching.

- ▶ A relentless focus on risk management is required

Update on status of implementation

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Recommendation 1: *“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”*

- ▶ EY observed substantial progress against this recommendation.
- ▶ Risks managed by the Project Team are quantified in terms of contingency allowances and are incorporated into the June 2017 Forecast. The Project Team does not systematically perform monthly stochastic modelling of the construction schedule.
- ▶ Nalcor Energy (Nalcor) has identified certain specific strategic risks for which it does not hold contingency (Excluded Strategic Risks). These are not included in the June 2017 Forecast, but have been identified and communicated to the OC, and are as follows:
 - ▶ Significant protest unrest
 - ▶ Vegetation and soil removal
 - ▶ Other unforeseen directives from government

Update on status of implementation

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Recommendation 2: *“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”*

- ▶ EY observed substantial progress against this recommendation.
- ▶ The Project has changed its confidence level for cost estimates from P(50) to a more conservative P(75).
- ▶ The Project Team identifies and quantifies risks, including strategic risks (other than Excluded Strategic Risks), and communicates them to the OC.

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Recommendation 3: *“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”*

- ▶ EY observed a greater degree of diligence in the Project Team’s assessment of risk and the inclusion of risk contingencies in monthly forecasts.
- ▶ The Project does not formally review Project contingency on a quarterly basis.

Recommendation 4: *“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”*

- ▶ EY observed substantial progress against this recommendation.
- ▶ Risks managed by the Project Team are quantified in terms of contingency allowances and are incorporated into the June 2017 Forecast.
- ▶ Nalcor has identified certain Excluded Strategic Risks, which are not included in the June 2017 Forecast.

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Recommendation 5: *“Project governance and independent oversight should be re-evaluated by the Provincial Government and strengthened at the Project, Nalcor Board and Provincial Government levels”*

- ▶ EY observed strengthening of Project governance and independent oversight at the Project, Nalcor Board and Provincial Government levels however, opportunities exist to further strengthen Project governance and independent oversight.

Recommendation 6: *“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”*

- ▶ EY observed improvements in the quality of project reporting at the Project Team, Nalcor Board and OC levels; however, opportunities exist to further enhance Project reporting.

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Project controls

1. The Provincial Government and Nalcor should define a process for when and how the Project Team will retire unneeded contingency from cost forecasts.
2. The Project Team should include stochastic schedule risk modelling in the monthly IPS report to better inform decisions regarding schedule float management.
3. The Project Team should formally document the results of its monthly internal risk modelling analyses on a quarterly basis. In addition, a QRA process involving Westney and other resources should be implemented on a biannual basis and following any event that materially changes the risk profile for the Project.

Governance and oversight

4. The Provincial Government and Nalcor should review and standardize reporting from the Project to the OC and the Nalcor Board, as well as from the OC and the Nalcor Board to the Provincial Government.
5. The Provincial Government, through the OC, should implement a full independent assurance function that will conduct regular additional project assurance activities related to cost, schedule and associated risks.

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