

From: [David Steele](#)
To: [Mullaley, Julia](#)
Subject: GNL - MFP Summary Status - Draft.pptx
Date: Friday, February 12, 2016 12:41:00 PM
Attachments: [GNL - MFP Summary Status - Draft.pdf](#)

Hello Julia,

Disregard the prior version sent. Please use this document as a final draft for distribution to other Government stakeholders.

Thank you,
Dave

Lower Churchill Project Phase I

EY Review - Interim Status Summary

Steering Committee Briefing

February 2016



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Interim Status Summary

The following observations are relevant to the reasonableness of the forecast of cost, schedule and risk, and influence EY's proposed focus moving forward

Scope & Constraints

- ▶ EY, to date, has had no visibility Nalcor's analysis and the potential outcomes of the Astaldi discussions, which currently presents the most material cost and schedule risk to the Project, and potentially has significant knock-on consequences.
- ▶ Nalcor is continuing to re-baseline its forecasts and this is not scheduled to be completed until the end of March.
- ▶ A relatively stable and current baseline is a key condition for success to achieve Government's objectives for the EY review.
- ▶ The above presents the following implications:
 - ▶ EY will not be able to provide a full assessment of current cost and schedule forecast and related risk by end of February/early March because Nalcor's re-baselining activities will not be complete by that time. This presents a scope limitation and will reduce the value of reporting to Government under existing agreed reporting timelines.
 - ▶ Therefore, we recommend that we conduct a review of the reasonableness of the September 2015 AFE2 cost and schedule forecast for the Muskrat Falls Project, identifying opportunities to address any material/critical risks. A final report should then be produced after the re-baselining activities are completed by Nalcor.

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Preliminary Observations & Emerging Risks

- ▶ In our preliminary analysis of 10 major contracts, we have reviewed the risks identified and documented by the Nalcor team. We observed potentially substantive* risks to contract cost in 2 contracts and to contract schedule in 4 contracts.
 - ▶ This relates to 3 contractors, namely Astaldi, Valard and Alstom
 - ▶ Nalcor's risk management process identifies mitigation plans against identified risks. These will be further assessed by EY.
 - ▶ The impact of individual contract schedule risks on Project schedule needs to be further evaluated
- ▶ Given the significant scope and time remaining on the Project (construction is 40% complete), a 5% contingency level appears low (before any consideration of the Astaldi situation).
- ▶ Allowances for and documentation of strategic risks do not appear to be included in the current project cost / schedule reporting.
 - ▶ Nalcor are undertaking a Quantitative Risk Assessment (QRA) process which will feed into their updated cost and schedule forecast. This QRA will be assessed by EY as part of the remaining scope of work
- ▶ We have not observed evidence of a fully risk adjusted forecast for Project cost and schedule.
- ▶ Anticipated material variances are only reflected when contractually committed.
- ▶ Enhanced reporting of cost and schedule risks would enable more effective oversight of the Project.

* 'Substantive' risks are regarded as having the potential to impact cost or schedule by greater than 5% of contract value or 50m or 2 months respectively

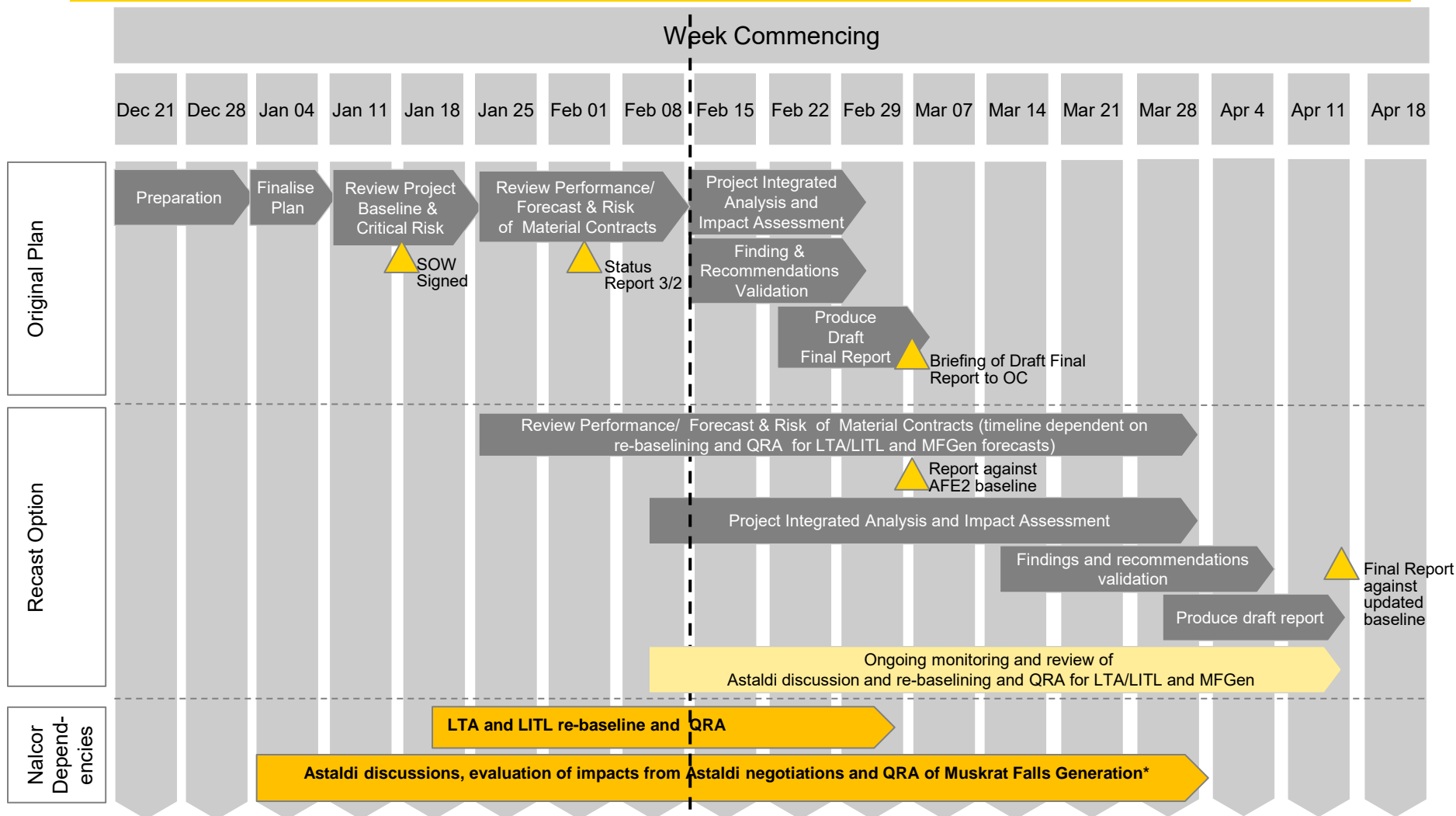
Interim Status Summary

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Proposed EY work plan for February

- ▶ Continue with cost and schedule analysis elements that are not fully dependant on outcome of Astaldi / QRA.
- ▶ Extension of the EY review timeline to align to the Project's re-baselining and quantitative risk assessment activities to allow for complete assessment by EY to achieve expected value to Government.
- ▶ Interim and final reporting options should be considered. Specifically, it is proposed that EY report at the end of February/early March with the following scope:
 - ▶ A review of the reasonableness of the September 2015 AFE2 cost and schedule forecast for the Muskrat Falls Project, identifying opportunities to address any material/critical risks.
 - ▶ The report will explicitly acknowledge the Project status around critical risk areas (e.g. Astaldi and Valard) and the ongoing work by the Project to update cost and schedule forecasts
- ▶ EY should be provided with access to key data and information through critical elements of the Project as they unfold, including:
 - ▶ Provision of data and information during Astaldi discussions (i.e. review materials and positions as they evolve), and
 - ▶ Allowing EY to take an observer role through re-baselining activities and quantitative risk assessment activities.
- ▶ Provide suggestions to the Steering Committee and Nalcor regarding project reporting to enable more effective oversight and assurance of cost and schedule forecasts.

Proposed EY work plan moving forward



* These timelines are indicative, based on discussions with Nalcor. The timing of the conclusion of the Astaldi discussions, and its outcome, are not controllable by Nalcor.