

From: [Michael Kennedy](#)
To: [Paul Hickey](#); [David Steele](#); [Tim Calver](#); [Kirsten Tisdale](#)
Subject: Muskrat Falls - Notes from meeting with Paul Carter and Bern Coffey
Date: Tuesday, December 6, 2016 11:57:00 PM
Attachments: [image001.gif](#)
[Gov NL Brief 28sep16_TC.pptx](#)

Hi everyone. Paul / Dave we can debrief live tomorrow in the office.

These are my notes from this afternoon's meeting with Paul Carter / Bern Coffey. Initially this meeting was planned as a social / catch up meeting with Paul, who I met with on Sept 23rd. When I arrived Paul said I have a surprise for you, the Clerk is going to join us for 20 minutes.

In rough chronological order:

- Bern introduced himself and said he is still coming to terms with the role since appointment on Sept 21st. He mentioned he was one of the most vocal opponents of the project and a member of the 2041 group.
- Curiously he went back to the EY report of Oct 15, as a starting point. He summarised that report as saying to him: Nalcor doesn't know what it is doing, has lacking process for forecast going forward, is hiding the extent of the problem.
- He then expressed growing alarm / concern in government with the recent events at MF – seeping cofferdam, mercury issues, FN protests, now the ice impounding issue. All in addition to the known problems re cost / Astaldi. Clearly Govt and I got the sense that Nalcor too think the ice impoundment issue could be really serious. The media here was full of it here today – the independent engineer's report was published yesterday after being completed in July. Govt is really peeved that nalcor sat on it for 4 months and only gave govt a copy a couple of weeks ago.
- He then talked about the Oversight Cttee and said Julia told him on walking out the door, that the Cttee was not effective and had to be rethought. They are in the process of thinking through what that could look like.
- I was able to then respond that our review from April 16 similarly called for 1) a review of governance and oversight 2) focus on the Astaldi contract, 3) reforecast of costs risks from June etc. I was then able to say we had met Stan in June and had a productive conversation, but that on the face of it, apart from a new CEO, NOTHING appears to have changed in the approach from Nalcor – same leadership in place for the most part, unsure where our recommendations sit. Eg nobody has reviewed the June 29th cost forecast from Stan. Bern nodded his head and said absolutely agree.....Nalcor has a new Board just appointed and it looks like a strong Board.
- The discussion concluded with him saying, obviously you have a team available at short notice to respond to needs moving forward.

Bern then left and Paul was able to add a bit more colour to a couple of points:

- Gov is really concerned at cost pressures – astaldi, the stranding issue with the HV cables, methomercury, knockon contract implications from the delays, ice impoundment, cofferdam leaking, corrosion on the undersea crossing, liens being filed on Nalcor by contractors.
- Paul said he had been talking to Bern about a reformatted Oversight Cttee which is arms

length from Govt, and reports directly to Cabinet and staffed with truly independent people. EY would be ideally placed to work with this cttee for on-going review and assurance.

- I then showed Paul the attached deck on my laptop and particularly the slide re message to govt. He agreed with it and said hold onto that for now (the FOI scrutiny is unbelievable)leave it with me. Bern / Paul are still finding their feet in their new roles and Paul has been trying to get his attention.
- His final advice was to be ready / available to respond, but don't be too pushy and to give him a little bit of time. He said Bern is not quite there with getting EY engaged but is getting close and he is always fussy about money (makes you smile very wryly when you think how much the project is burning daily!!)

My take is that Paul "gets it" and would engage us tomorrow to work out a proper mandate for longer term review / assurance. I think we take his lead for now and lead us in.



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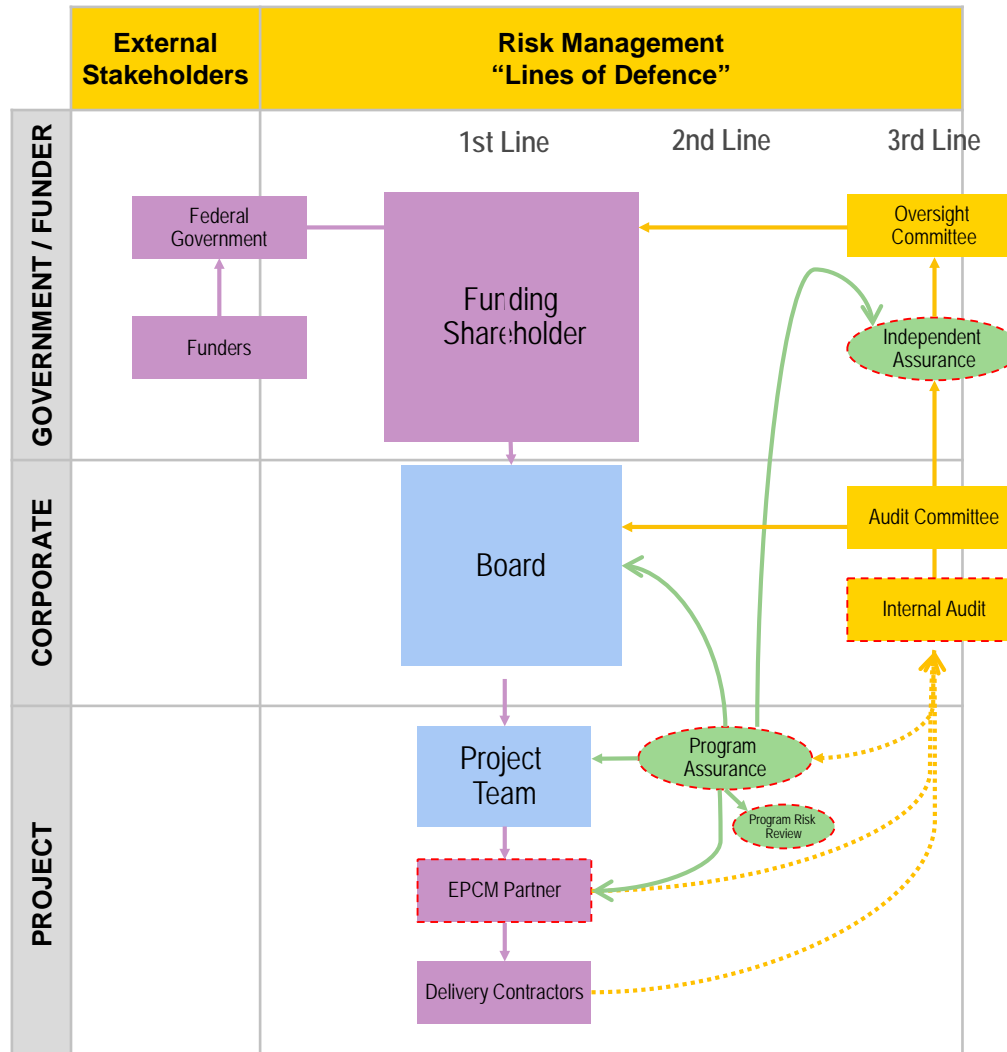
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Some key messages for government

CIMFP Exhibit P-03430

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1. No-one outside of Nalcor, has been involved in reviewing the Muskrat Falls project since March 2016, including the revised cost / schedule estimate of July 2016. Govt oversight committee has not reported formally since December 2015.
2. Nalcor has replaced the CEO, *and whilst the project has been reorganised into two units, the core project leadership team remains the same.*
3. *Astaldi Civil Works – following EY’s critical review an intervention, there has been an interim agreement with Astaldi and presumably ongoing negotiations for completion of the Astaldi scope and the knock on impacts to other major contracts. It is unclear whether there is transparency of Astaldi performance and oversight on Nalcor’s management and mitigation of the most material risks to the entire programme.*
4. *Status of findings / recommendations from EY interim report of March 2016 are unclear (see appended), although there is not much evidence they are being progressed. One of the clear themes was for transparent, open and independent review of project cost, schedule and risk outcomes.*
5. Timing – opportunity now Oct – Dec 2016 to complete a further report and assess Astaldi contract position. Delay to Q1 2017 would be over 12 months since new Govt in NL assuming office.
6. *Logic to continue to wait to deliver a report should be reviewed given the time elapsed. This is counter to EY’s recommendations on strengthening oversight to which GNL committed. [Both GNL and EY are exposed to reputational risk in this respect]. The case for an ongoing independent assurance role going forward (as described overleaf) should be examined. This is not just global “best” practice, its “normal” practice for major infrastructure projects.*
7. EY has a largely Canadian team available to continue the work and is conscious of the cost optics of our work. EY and Nalcor must complete this review in collaborative / open manner.



3 Lines Definition

- ▶ The '1st Line' is accountable and responsible for delivering the project. (Make decisions that influence the project outcome)
- ▶ The '2nd Line' is provided by the program assurance function which looks at both performance and risk management, and reports into management
- ▶ The '3rd line' of defence is Audit. Both internal and external auditors regularly review both the program frontline and the assurance functions, and ensure they are operating effectively

- Extended Enterprise
- 1st Line of Defence
- 2nd Line of Defence
- 3rd Line of Defence

April 2016 Interim report: Key findings

- ▶ Overall conclusion that September 2015 Forecast of schedule and cost was **not reasonable**, because:
 - ▶ Muskrat Falls Generation (“MFG”) contract for civil construction (Astaldi) was significantly behind schedule and consequences not reflected in September 2015 Forecast
 - ▶ Current contingency level representing 4.7% of cost to complete, or 2.3% of total cost, was very low for stage of completion of Project - **significant amount of physical construction work still to do, followed by commissioning and integration**
 - ▶ Risk of multiple month delay to completion of the HVdc transmission line contract as a result of delivery challenges to date and future risks, where full mitigation may not be possible
- ▶ Additional key findings:
 - ▶ Project risks, whilst identified, are not systematically evaluated and reflected in the financial and schedule forecast
 - ▶ Governance and reporting have not been effective in respect of the Project’s cost and schedule forecast

April 2016 Interim report: Key recommendations

CIMFP Exhibit P-03430

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1. Project should revise its planning and forecasting processes to explicitly include regular reporting of a fully risk-adjusted final forecast of cost and schedule
2. Project contingency should include allowances for all risks, including strategic, and be prepared on a more conservative basis, based on a thorough risk assessment
3. Sufficiency of Project contingency should be reviewed quarterly in light of emerging risks, effectiveness of mitigation plans and the likelihood of risks crystallizing
4. Project contingency should be separated into an amount to be managed by the Project team and an amount to be managed at a higher level of governance
5. Project governance and independent oversight should be re-evaluated and strengthened at the Project, Nalcor Board and Provincial Government levels
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