

From: [Bown, Charles W.](#)
To: [Morris, Paul J.](#); [Brewer, Donna](#); [Au, Peter](#); [Myrden, Paul](#)
Cc: [English, Tracy](#); [McGrath, Rob](#)
Subject: RE: Oversight
Date: Monday, November 11, 2013 4:55:47 PM
Attachments: [GNL Shareholder Oversight of Muskrat Falls Project \(4\).doc](#)

Donna;

Here's a revised. I moved the FLG (IE) piece to make it a clear part of the Recommended approach.

Charles

From: Morris, Paul J.
Sent: Monday, November 11, 2013 4:02 PM
To: Brewer, Donna; Au, Peter; Myrden, Paul
Cc: Bown, Charles W.; English, Tracy; McGrath, Rob
Subject: FW: Oversight

Donna,

Further to my previous e-mail, attached is a revised version of the oversight document for you additional input.

Paul

From: McGrath, Rob
Sent: Monday, November 11, 2013 3:46 PM
To: Morris, Paul J.
Subject: RE: Oversight

Revised as discussed.

Rob

From: Morris, Paul J.
Sent: Monday, November 11, 2013 1:51 PM
To: Bown, Charles W.
Cc: McGrath, Rob; English, Tracy
Subject: Oversight

Charles,

Attached is the draft oversight piece which has been forwarded to Finance for input.

Paul

GNL – Shareholder Oversight of Muskrat Falls Project

Purpose

The Muskrat Falls Project (MF) provides significant economic benefits for the province, including long-term stable electricity rates for generations of Newfoundlanders and Labradorians and an end to dependence on oil and unstable electricity prices.

“The current Lower Churchill Project design, schedules and cost estimates are considered consistent with good utility practice. The design, construction planning, cost estimate and schedule are comprehensive and sufficiently detailed to support a Decision Gate 3 project sanction”

MHI Review, October 2012, page 56

While MF provides significant benefits, the project requires careful governance and project oversight to minimize the financial and other risks inherent in a project of this magnitude.

Current Government/Nalcor Oversight Mechanisms

NALCOR

1) Boards of Directors – Nalcor, NLH, Nalcor Subsidiaries related to Muskrat Falls

2) Project Management

a) Project Control Mechanisms

b) Internal Audit Reporting directly to Nalcor Board

c) Leadership Team

GOVERNMENT

1) Nalcor Executive briefings

Periodical briefings from Nalcor executive to senior Government officials (Premier’s Office, Cabinet, DM’s, etc.) on status of various aspects of Muskrat Falls.

2) Lower Churchill Coordinating Committee

A senior officials committee chaired by the Clerk of the Executive Council has been assessing and monitoring the various legal, environmental, aboriginal, financial, engineering and regulatory issues associated with Muskrat Falls. The Committee

Deleted: Governance Roles and Responsibilities

Deleted: Board of Directors – Subsidiaries

Deleted: Paul Morris – we need Nalcor to describe their internal governance and oversight for the projects.

Deleted: Federal Loan Guarantee – Independent Engineer

Independent Engineer (IE) — provides oversight to the Federal Government in relation to the Federal Loan Guarantee. The IE reviews project documents and any information provided in support of any drawdown requested by the borrower and shall make a recommendation to the lender by way of an IE certificate.

In summary, the IE provides the following reports/services to the Federal Government:

Construction Period – Pre-financial close – one report certifying various aspects of the project including: project design, construction plan and schedule, capital budget, etc.

Construction Period – Post-financial close – receives monthly draw certifications to release payment and provides them to Canada; provides periodic summary reports on project progress, milestones, etc.

Project Completion – final report confirming Project completion

Operations and Maintenance – provides monitoring services for 5-year renewable periods; provides an annual operations and maintenance report

As owner of the Muskrat Falls Project, Nalcor will receive all IE reports provided to the Federal Government.

Formatted: Underline

Deleted: CEO

Deleted: to the Premier, Minister of Natural Resources and Cabinet
How often does the Board Chair or Ed report to Premier / Cabinet.

Deleted: - a

Deleted: F

supports Cabinet in its decision to sanction the project, and to support Nalcor in its project implementation by ensuring the necessary government and regulatory approvals are identified and are in place.

3) Labour Relations Liaison Committee

As a requirement of the Special Project Orders, the Labour Relations Liaison Committee has been established and includes the Labour Relations Agency.

4) Joint Benefits Committee

A joint benefits committee between Nalcor, Emera, Nova Scotia, and the NL Department of Natural Resources to periodically to provide update on benefits-related matters.

Current Public Reporting

- a. Audited Financial Statements and Annual Report of Nalcor and its subsidiaries (are the latter audited or just the consolidated entity?)
- b. Nalcor Annual General Meeting
- c. Periodic News Releases, News Conferences
- d. Website /Social Media
- e. Nalcor monthly benefits reports
- f. House of Assembly / Ministerial Statements

Federal Loan Guarantee – Independent Engineer

An Independent Engineer (IE) provides oversight to the Federal Government in relation to the Federal Loan Guarantee. The IE reviews project documents and any information provided in support of any drawdown requested by the borrower and makes a recommendation to the lender by way of an IE certificate.

As owner of the Muskrat Falls Project, Nalcor will receive all IE reports provided to the Federal Government.

Deleted: ¶
 <#>Board of Directors - Nalcor¶
 ¶
 <#>Board of Directors - Subsidiaries¶
 ¶
 <#>Project Management ¶
 Paul Morris – we need Nalcor to describe their internal governance and oversight for the projects.¶

Deleted: ¶

Deleted: R

Deleted: to involve

Deleted: <#>Federal Loan Guarantee - Independent Engineer¶

Formatted: Font: Bold

Deleted: Although there is no contractual relationship between the IE and the province, the province will receive all IE reports referenced above through Nalcor.¶
 ¶

Formatted: Font: Not Bold

Formatted: Font: Not Bold

Deleted: ¶

Deleted: ¶

Deleted: <#>Financing Protocols¶
 ¶
 Collateral Agent - The lead arranger for the \$5 billion debt financing will be Collateral Agent facilitating the distribution of the \$5 billion debt and \$1.886 GNL base equity commitment. (Paul Morris to provide information on the role of the Collateral Agent and reporting protocols between it and Nalcor/Subsidiaries).¶
 ¶
 Federal Government - Independent Engineer — a position established under the federal loan guarantee agreement — is also tasked with project oversight. (Paul Morris – need more information on the role of this position and if the position reports will be shared with GNL)¶

Deleted: Public Reporting¶

Formatted: Bullets and Numbering

Deleted: ¶

Deleted: Nalcor is providing monthly summaries of contracts and spending on the project website.

Formatted: No bullets or numbering

Formatted: Font: 14 pt

Formatted: Font: Not Italic

Deleted: ¶

RECOMMENDED ADDITIONAL GOVERNMENT REPORTING PROTOCOLS

Deleted: ¶
Deleted: GNL

1) Lower Churchill Project Financing Monitoring Committee

A Senior Officials Committee consisting of the Deputy Minister of Finance, Associate Deputy Minister of Natural Resources, Assistant Deputy Minister of Finance and Natural Resources, and the Director of Debt Management should meet on a bi-monthly basis (or more frequently as required) with senior Finance officials from Nalcor.

Deleted: Nalcor CEO briefings ¶
to the Premier, Minister of Natural Resources and Cabinet¶
How often does the Board Chair or Ed report to Premier / Cabinet.¶
Lower Churchill Coordinating Committee - a senior officials committee chaired by the Clerk of the Executive Council has been assessing and monitoring the various legal, environmental, aboriginal, financial, engineering and regulatory issues associated with MF. The Committee supports Cabinet in its decision to sanction the project, and to support Nalcor in its project implementation by ensuring the necessary government and regulatory approvals are in place.¶
(Pending)

Committee will review the DG3 budget projections, project schedule, dollar value of contracts let, dollar value of projects tendered, costs incurred to date, commitments, status of contingencies and reserves, revised project costs and explanations for variances, and any additional information as required by this committee. Quality assurance reports including any risks identified which if not mitigated could lead to cost overruns. GNL is responsible to provide Nalcor with additional equity financing to cover any cost escalations.

Deleted: - It is recommended that a
Deleted: to

2) Independent Engineer Reports

Formatted: Font: Bold

Although there is no contractual relationship between the IE and the province, the province will receive all IE reports referenced above through Nalcor.

These reports will include:

- Construction Period – Pre-financial close – one report certifying various aspects of the project including: project design, construction plan and schedule, capital budget, etc.
- Construction Period – Post-financial close – receives monthly draw certifications to release payment and provides them to Canada; provides periodic summary reports on project progress, milestones, etc.
- Project Completion – final report confirming Project completion
- Operations and Maintenance – provides monitoring services for 5-year renewable periods; provides an annual operations and maintenance report

3) Cost Accountability Protocol

Deleted: ¶
¶
Deleted: 2
Deleted: (Pending) Equity Funding Protocol Agreement
Deleted: -
Deleted:
Deleted: establish an
Deleted: equity funding

Consistent with MC-xxxx, and in relation to the Lower Churchill Financing Monitoring Committee, Finance and NR officials will finalize a cost accountability protocol that will outline to Nalcor the expectation with respect to the extent of

documentation required to support NR's certification of Nalcor's request for equity contributions.

4) Internal Reporting,

Requirement for, quarterly updates to Treasury Board, EPC and or Cabinet on, but not limited to, project budget, industrial benefit targets such as targeted employment in accordance with the hiring protocol e.g. aboriginal persons, Labrador residents, women, Labour Relations issues etc.

- Deleted: 3
- Deleted: (Pending)
- Deleted: -
- Deleted: s
- Deleted: suggest there be

5) Public Reporting

[NTD: need to confirm if additional public reporting requirements are required]

Deleted: 4

- Deleted: <#>Will AG be able to review and comment on project including GNL oversight?¶
- <#>HOA question period¶
- <#>Ministerial Statements¶
- <#>Periodically the Minister of Natural Resources should provide a public statement on the status of the project timelines, spending to date, revised project budget projections, and industrial benefits achieved / revised targets.¶
- <#>Public Accounts¶
- <#>Estimates¶
- <#>Natural Resources Annual Report¶
- <#>Government website¶
- <#>ATIPP requests¶
- <#>News Releases / News Conferences¶
- Deleted: ¶
- ¶
- ¶
- ¶