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**To:** [Brown, Milly](#)  
**Cc:** [Guest, Kevin J](#)  
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**Attachments:** [KMs and QAs June 30.docx](#)

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Milly – still waiting on the QA re: \$6.5 M from Tina, however, in the interest of time, here is a revised set of KM/QAs.

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## Primary Key Messages/QA

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### **Nalcor's role versus the role of the committee**

Wasn't Nalcor always providing oversight?

Why do we need a committee?

Would we need one if Nalcor was doing their job from the beginning?

Nalcor is comprised of individuals whose expertise lies in the development of major construction projects, such as Muskrat Falls. From day 1, these experts have been doing what they do best, which is the day to day management of the mega project.

The Oversight Committee was established to provide additional assurance to the people of the province. The committee will leverage Nalcor's expertise in large scale projects to ensure public interests are protected. This is not about duplication: Nalcor is providing best practice oversight while the committee is providing oversight on a different level.

The Provincial Government has provided significant oversight for this project since its inception. Independent experts have reviewed the project including Manitoba Hydro International, Navigant Consulting, the Board of Commissioners of Public Utilities, Dr. Wade Locke and Ziff Energy Group of Calgary.

Due diligence was also undertaken by the Government of Canada prior to issuing a federal loan guarantee was supported by experienced external legal advisors, independent financial advisors, an independent engineer and an independent insurance consultant, all engaged directly by the Government of Canada.

As part of its regular business operations, the annual financial statements for Nalcor and each subsidiary are audited by an external independent public accounting firm. Nalcor's external independent auditor is currently Deloitte & Touche LLP (Deloitte). Primary oversight is provided by the Nalcor Board of Directors. These are qualified individuals who have a legal fiduciary responsibility to ensure the project is developed as planned. The Board of Directors have the Internal Audit group from within the company who report to the Board directly on all project elements.

### **The Committee**

Who is on the committee?

Why were these individuals chosen?

The committee is comprised of senior Provincial Government officials, including those that have been involved in oversight of the project since its inception.

The committee is supported by a working group of experienced professionals with specialized skills in the areas of law, engineering, project management, accounting and auditing. The working group includes internal resources as well as external consultants with specialized expertise in major capital project practice. This group will inform and advise the committee's work in monitoring the project on behalf of the people of the province.

**The Mandate of the Committee**

What kind of oversight is the Committee providing?

How is it different from Nalcor's?

Isn't this just window dressing?

The oversight committee was created to establish a direct and effective communication channel between Cabinet and the general public.

To provide reliable and transparent oversight of the project so that the public can have confidence that the project cost and schedule are well managed, that the project is meeting the cost and schedule objectives and that the cost and schedule risks are being reasonably anticipated and managed.

The oversight work of the Committee will not duplicate that of Nalcor. Rather, the Committee will focus on identifying other activities that can be undertaken that will provide additional assurances to the people of the province without duplicating existing oversight mechanisms.

**Work completed to date**

What has the committee been doing since March?

Since its formation in March, a tremendous amount of work has been undertaken by the oversight committee, including the development of the formal terms of reference, and the establishment of robust protocols, processes and systems. The reports completed by the Independent Engineer and Ernst and Young are also the direction of the committee.

Specifically, the committee has:

- Established a formal arrangement so that committee has access to all the materials and activities undertaken by the Independent Engineer
- Asked Nalcor to direct its independent external auditor to conduct additional auditing procedures with respect to the validity of costs charged to the project. This is in addition to any review that the Auditor General may undertake as part of his Office's audit of the Province's Public Accounts.
- Asked Nalcor to direct its independent external auditor to prepare annual financial statements for the project, separate from Nalcor's corporate financial statements.
- Gained an understanding of Nalcor's internal audit assurance framework as well as reviewed the Internal Audit Plan for the two year period 2014 and 2015 for the Project and has worked with Nalcor to prioritize areas for review.

To ensure that its work proceeds effectively and efficiently, the committee developed an oversight framework. In developing this framework, the committee carefully considered its terms of reference, its information needs (identification of the information it can already access and the information it would need in the future) and existing oversight activities (to ensure no unnecessary duplication of effort).

The oversight framework being released today is comprised of the following key elements:

- The committee's Terms of Reference: its mandate and defined reporting frequency

- A list of information needs: the information currently accessed and the additional information from Ernst and Young needed as per best practices on mega-projects
- The reporting protocol: how information on project cost and schedule performance will be provided to the committee
- Existing sources of oversight: this will help the committee understand the work and reports of other oversight providers, use that work where appropriate and request Nalcor to direct these oversight providers to undertake further oversight activities and reporting when required so the committee can provide additional assurance to the people of the province

The Terms of Reference makes it very clear that the committee is mandated to provide reliable and transparent oversight of the project so that the public can have confidence that the project cost and schedule are well managed, that the project is meeting the cost and schedule objectives and that the cost and schedule risks are being reasonably anticipated and managed.

### **Role of Ernst and Young**

Why engage an external consultant? What did EY do?

Given the scale and complexity of the project, one of the first things the Committee did was to engage Ernst and Young, which is an independent consultant with specialized skills in major capital projects, to conduct a third party assessment of the oversight committee's protocols and to provide advice on what information would be needed to effectively monitor the project's cost, schedule and risk. We are pleased with the work undertaken to date.

Ernst and Young was also asked to provide advice about the committee's governance structure, including required resources and associated roles and responsibilities.

- Ernst and Young made three main recommendations, all of which the committee has acted upon: That the committee should review cost and schedule performance, forecasts and risk management, in addition to the validity of the costs incurred
- The committee should be supported with specialized skills
- The committee should align its information requests with conventional project controls and assurance practices and reporting rhythm of Nalcor

### **Shareholder Letter to Nalcor**

The oversight committee has presented a shareholder's letter to Nalcor that states the terms of reporting to the oversight committee and directs Nalcor to provide pertinent information to the oversight committee. The committee has had ongoing correspondence with Nalcor; and much of the information requested in the shareholder's letter has already been made available to the committee for review.

It is expected that Nalcor will also release this information to the public, as long as the commercial interests of the project are protected, which in turn, protects the interests of the people of the province.

Nalcor has continued to proactively release information to the public on the Muskrat Falls information, such as the recent cost update and ongoing monthly project reports.

## **Next Oversight Report**

What can we expect to see in the next report?

The second oversight report on the Muskrat Falls Project will follow in the fall.

It will include a detailed assessment of the scope, cost, schedule, and a review of potential risks associated with the project.

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## **Detailed QAs**

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### **Natural Resources**

**July 25, 2014**

### **Muskrat Falls Project - Oversight**

#### **What is oversight?**

Oversight is a process where the Provincial Government - representing the people - has a fulsome understanding about the Muskrat Falls Project including costs, schedule and potential risks. The Provincial Government will receive the same information that others providing oversight will see.

Provincial Government oversight is only one element of oversight on this project. Primary oversight is provided by the Nalcor Board of Directors. These are qualified individuals who have a legal fiduciary responsibility to ensure the project is developed as planned. The Board of Directors have the Internal Audit group from within the company who report to the Board directly on all project elements. The Government of Canada will also have oversight on the project from its role as provider of the federal loan guarantee and the project lenders are also part of project oversight. The Independent Engineer provides a specialized service to the Government of Canada and the project lenders. The Provincial Government will receive their reports.

Project oversight is not about the day-to-day management of the project. We have extremely qualified people at Nalcor who have been hired because of their specific expertise in major construction projects. We cannot stand over the shoulders of the people at Nalcor. They have the expertise to build this project. The day-to-day management of the project is the responsibility of these experts. The Provincial Government's oversight role is to ensure they have the right skills, management systems and processes in place to build this project.

#### **What information will be received by the oversight committee?**

The oversight committee will receive detailed information on project costs, schedule, contracts, engineering, construction, etc. The information is detailed in the Shareholder Letter.

#### **What will be done with the information?**

In the same fashion as others doing oversight, (including Nalcor Board of Directors, Nalcor Internal Audit group, Government of Canada, project lenders and Independent Engineer) the oversight committee will review and assess the data. These are experts that have negotiated all

of the major projects in the province on behalf of the Provincial Government. We have a group of very qualified people with specialized skillsets.

The oversight committee has established a working group comprised of an Executive Director reporting to the Clerk of the Executive Council, full-time and part-time internal resources supplemented at this time with external consultants with specialized resources in major capital project practice. This working group brings skills in the areas of legal, engineering, project assurance, accounting, audit assurance and project management. The committee will report to Cabinet on its assessment of the data including costs, schedule and potential risks to each.

### **Who is going to be reviewing the information?**

Information received by the oversight committee will be reviewed by its members:

- Clerk of the Executive Council (Chair)
- Deputy Minister of Finance
- Assistant Deputy of Finance (Fiscal and Tax Policy)
- Director of Debt Management
- Deputy Minister of Natural Resources
- Associate Deputy Minister of Natural Resources
- Assistant Deputy Minister of Natural Resources (Energy Policy)
- Deputy Minister of Justice
- Assistant Secretary to Cabinet for Economic Policy

The working group will facilitate the committee's work.

### **What is the role of the Department of Natural Resources?**

While the oversight committee is chaired by the Clerk of the Executive Council, officials with the Department of Natural Resources sit on the Committee. To facilitate the committee's mandate, the department will also provide a supportive role by conducting ongoing research, analysis and other activities as required by the committee.

As you might expect, the department has a tremendous team at its disposal including engineers, accountants, economists, geologists, geoscientists, etc. We have a collective expertise for all types of natural resource projects. The department will be bringing whatever resources are required to assist the Clerk and the committee.

### **Will information be made public?**

We are committed to ensuring the public is advised on this project. As such the oversight committee will provide quarterly reports to the public starting today.

We will continue to ensure that commercially-sensitive information on the project remains confidential. This is not to keep project information secret. It's meant to ensure that companies bidding on project contracts aren't able to acquire information that would enable them to bid up their contract process versus bidding as low as possible. This is important for all of us.

**The Muskrat Falls Project was officially sanctioned in December 2012. Why wasn't oversight in place?**

Oversight has been in place throughout all stages of the Muskrat Falls Project - from initial planning, to early engineering, to our agreement with Emera, and most importantly to sanction and financing.

The Muskrat Falls Project belongs to the people of Newfoundland and Labrador, and it is imperative that it receive appropriate oversight. Prudent oversight is a priority for the Provincial Government and is an evolving process that will continue through the construction and operation stages of the project. The committee formalizes Provincial Government oversight of the project during the construction phase for the benefit of all Newfoundlanders and Labradorians.

**Bill 29 prevents the Provincial Government from releasing Cabinet documents. How can you say all information related to the Muskrat Falls Project and the committee will be made public?**

The Provincial Government is committed to ensuring the public has access to as much information as possible. An abundance of information and documents are publicly available. Some examples include:

- Provincial Population Growth Strategy: What We Heard
- ATIPP Departmental Response Timelines
- Registered Nurse Workforce Model Report
- CYFS Child Protection and In-Care Quarterly Reports, Adoptions Quarterly Reports, Youth Corrections Quarterly Reports
- Midwifery Report
- Reports related to the Legal Aid and the Sherriff's Office Review

**Will the Provincial Government allow the Auditor General the opportunity to audit Nalcor?**

The Auditor General has full jurisdiction to undertake an audit of Nalcor. However, it should be recognized that the Auditor General has a responsibility as well to ensure that commercially-sensitive information is not released. Commercially-sensitive information is protected under the Energy Corporation Act. This means that all records being disclosed by Nalcor must be reviewed with both the ATIPP Act and the Energy Corporation Act in mind.

**There have been calls for true independent oversight of the Muskrat Falls Project. Provincial Government and Nalcor oversight is not true independent oversight. We need oversight, so what is government going to do about it?**

We have independent oversight of the Muskrat Falls Project. Independent experts have reviewed the project including Manitoba Hydro International, Navigant Consulting, the Board of Commissioners of Public Utilities, Dr. Wade Locke and Ziff Energy Group of Calgary.

Due diligence undertaken by the Government of Canada prior to issuing a federal loan guarantee was supported by experienced external legal advisors, independent financial advisors, an independent engineer and an independent insurance consultant, all engaged directly by the Government of Canada.

As part of its regular business operations, the annual financial statements for Nalcor and each subsidiary are audited by an external independent public accounting firm. Nalcor's external independent auditor is currently Deloitte & Touche LLP (Deloitte).

**When did government receive the final first report?**

This first report was submitted to Cabinet on July 28, 2014.

**Who prepared the first report?**

The first report was prepared by the oversight committee and its working group.

**Did Nalcor have a say in the first report in terms of what was included and publically released?**

Nalcor was consulted on the first report from the perspective of:

- Fact checking any information that originated from Nalcor
- Ensuring there were no legal issues arising
- Ensuring that Nalcor had an opportunity to raise any commercial sensitivity issues for consideration by the Committee
- Advise Nalcor of any issues identified by the Committee and provide Nalcor an opportunity to respond to such issues

This process of report vetting is common to most oversight reports, including the compliance audits undertaken by the Auditor General on Provincial Government departments and programs on an annual basis.

**Was Cabinet privy to any earlier draft versions of the oversight report?**

This first report was submitted to Cabinet on July 28, 2014.

**Was Nalcor privy to any earlier draft versions of the oversight report?**

Nalcor was consulted on this first report for report vetting purposes. This vetting process is consistent with most oversight processes including those employed by the Office of the Auditor General.

**The oversight committee was created in March. Why has it taken so long for government to release the first report?**

The oversight committee has taken the time to ensure it has the appropriate information and mechanisms in place to fulfill its mandate and objectives of:



- Providing reliable and transparent oversight on the cost and schedule performance of the project
- Establishing a direct and effective communication channel to Cabinet and the general public

As such, the activities over the last several months have been targeted towards ensuring the committee has the appropriate information, resources and processes to fulfill its mandate and objectives. This includes defining processes, establishing protocols and engaging stakeholders.

**The Provincial Government promised an update in July and it's now July 31 – better now than never I suppose. Why so late?**

Today, the Provincial Government fulfills its commitment made on March 24, 2014, to provide its first quarterly report from the oversight committee on the Muskrat Falls Project. In March, we committed to providing the committee's first quarterly report in July and today that is exactly what we are doing.

**What else has the oversight committee being doing since March?**

Over the past few months, the committee has concentrated on collecting and reviewing information provided by external auditors, the independent engineer and Nalcor. An Executive Director has been assigned to implement the objectives of the committee in a timely manner. The chartered accounting firm Ernst and Young has been engaged to conduct a third party assessment of the committee's protocols and to help with the preparation of materials and reports. We are pleased with the work undertaken to date.

In addition to the report, the committee has presented a Shareholder Letter to Nalcor that states the terms of reporting to the committee and directs Nalcor to provide pertinent information to the committee. The committee has had ongoing correspondence with Nalcor and much of the information requested in the Shareholder Letter has already been made available to the committee for review. It is expected that Nalcor will release this information to the public, as long as the commercial interests of the project are protected. Nalcor has continued to proactively release information to the public on the Muskrat Falls Project, such as the recent cost update and ongoing monthly project reports.

**What is the role of Ernst and Young?**

The Major Capital Project Team at Ernst & Young LLP, an independent consultant with specialized resources in the area of major capital projects, was engaged to provide advice to the committee to clearly define its role and ensure it would have the information, resources and processes it requires to fulfill its mandate. Further, Ernst & Young LLP has been retained, at this time, as a consultant to the committee as part of the working group.

**Can we see the Shareholder Letter?**

Along with the first report, the Shareholder Letter is now publically available.

**Will the information referenced in the Shareholder Letter be made public?**

Much of the information requested in the Shareholder Letter has already been made available to the committee for review. It is expected that Nalcor will release this information to the public, as long as the commercial interests of the project are protected. Nalcor has continued to proactively release information to the public on the Muskrat Falls Project, such as the recent cost update and ongoing monthly project reports.

**Government keeps talking about the commercial interests of the project. What does this really mean and why is government keeping information from the public?**

We firmly believe that oversight, transparency and the release of information on the Muskrat Falls Project to the public is critical. We understand why people want to know more about the project and how it is progressing.

It is important to find the right balance of providing the public with cost information on the project and protecting consumers. We will continue to ensure that commercially-sensitive information on the project remains confidential. This is not to keep project information secret. It's meant to ensure that companies bidding on project contracts aren't able to acquire information that would enable them to bid up their contract process versus bidding as low as possible.

**Why was the information by Ernst & Young LLP included in this report not released before?**

The third party final report by Ernst & Young LLP was only released to the Provincial Government on July TBC, 2014. This provided the committee with TBC weeks to review and accept the recommendations as outlined in the July quarterly report.

**Did Nalcor have a role in determining when the report would be issued?**

The report release date was set out in March.

**If not, what exactly was Nalcor's role in the report?**

Nalcor is the Provincial Government's crown corporation and the Muskrat Falls Project is the province's asset. The role of the committee is to report to Cabinet and the public, independently of Nalcor, for the purposes of overseeing Nalcor's management in the construction of this project as it relates to the project costs and schedule performance.

**How are we supposed to trust Nalcor and the information they provide on the Muskrat Falls Project? As far as we see, they are only increasing project costs and jacking future electricity rates.**

The Muskrat Falls Project will ensure a reliable, least-cost source of energy that will result in long-term stable rates. With the recent update from Nalcor, it is clear that we are continuing to head in the right direction – a least-cost project providing reliable power, stable rates, substantial economic and employment benefits and returns to the province for future generations.

**The report seems kind of thin. Is this really what we have waited since March for?**

Being the first quarterly report of the committee, it was necessary to take the time to ensure the committee had the appropriate tools and information to meet its objectives.

As such, the first quarterly report provides an overview of:

- The committee's governance and terms of reference
- Existing sources of assurance/reliance
- Recent activities of the committee
- What will be contained in the next report

As the project progresses, the content and focus of each quarterly report will adjust as appropriate.

**There's really not a lot of substance to this report. Why is that exactly?**

As this is the first quarterly report of the committee, it was necessary to take the time to ensure the committee had the appropriate tools and information to meet its objectives.

Due to the recent timing of Nalcor's revision to the project budget baseline and the expected receipt of information and reporting from Nalcor regarding the recent budget revision, the committee was not in a position to comment on the project costs and schedule for the July quarterly report. The report for the quarter ending September 30, 2014, will include this information.

If the committee determines there are any material issues that arise before the next quarterly report, the committee will issue an interim report.

**We understand it took government time to create the committee and determine how it would move forward. We are still disappointed by this report and the lack of information. Government has been conducting its due diligence on the Muskrat Falls Project since it was first announced and ensuring oversight during the entire process. If that is the case, why is this report so thin? How can we have faith in government's oversight and these reports?**

Prudent oversight of the Muskrat Falls Project is a priority for the Provincial Government and it will continue through the construction and operation stages of the project. The Provincial Government has conducted ongoing oversight of the Muskrat Falls Project from initial planning, to early engineering, to our agreements with Emera, and most importantly to sanction and financing.

To strengthen and formalize the existing oversight for the construction phase of the Muskrat Falls Project, the oversight committee was established. As promised, the Provincial Government has now released the first report of the oversight committee which includes information on the committee's governance structure, existing oversight sources, recent activities of the committee, the project's budget and next steps.

The committee's report for the quarter ending September 30, 2014, will contain relevant scope areas including the analysis of the project cost and schedule performance and the results of the other assurance procedures undertaken by or on behalf of the committee.

**When will the next report be issued?**

The next quarterly report is expected to be released in November.

If the committee determines there are any material issues that arise before the next quarterly report, the committee will issue an interim report.

**Will it be as lax as this report or can we actually expect to see some more substance?**

For reasons discussed, the July quarterly report was unable to report on project costs and schedule performance. The committee's next quarterly report will contain relevant scope areas including analysis of the project's cost and schedule performance and the results of the other assurance procedures undertaken by or on behalf of the committee.

**This report should contain more information. How can you stand by these reports and claim to be open and transparent on the Muskrat Falls Project?**

Due to the recent timing of Nalcor's revision to the project budget baseline and the expected receipt of information and reporting from Nalcor regarding the recent budget revision, the committee was not in a position to comment on the project costs and schedule for the July report. The committee's next quarterly report will contain relevant scope areas including analysis of the project's cost and schedule performance and the results of the other assurance procedures undertaken by or on behalf of the committee.

If the committee determines there are any material issues that arise before the next quarterly report, the committee will issue an interim report.

**How can this committee claim to be independent when the committee is spear-headed by government bureaucrats?**

Independence on the committee is demonstrated in a variety of ways including:

- Utilizing independent sources of information for its analysis such as the info from the Independent Engineer, MWH, Nalcor and its subsidiaries, external auditors
- Following the recommendations of independent consultants, Ernst & Young LLP regarding the information and resources necessary to oversee the Project.

**Are you confident in the amount of oversight on this project?**

Prudent oversight of the Muskrat Falls Project is a priority for the Provincial Government. As such, the Provincial Government has ensured that there has been more information made public about this project than any other project in the province's history. The Provincial Government has provided the opportunity for review by the public, government and independent experts including Manitoba Hydro International, Navigant Consulting, the Board of Commissioners of Public Utilities, Dr. Wade Locke and Ziff Energy Group of Calgary.

In addition to Provincial Government oversight, the Government of Canada conducted its own analysis which gave them the confidence to issue the \$5 billion federal loan guarantee to finance this development. This analysis was supported by experienced external legal advisors, independent financial advisors, an independent engineer and an independent insurance consultant all engaged directly by the Government of Canada.

Furthermore, Nalcor's Board of Directors and Internal Audit group provide oversight. The Provincial Government requires that Nalcor provide annual transparency and accountability reports and regularly prepare audited financial statements which are integrated into Nalcor's annual business and financial annual reports. In addition, Nalcor holds public annual general meetings where the previous year's performance is discussed.

Prudent oversight of the Muskrat Falls Project will continue through the construction and operation stages of the project.

**Are you confident in Nalcor's ability to manage the project?**

Nalcor has significant oversight in place for the Muskrat Falls Project, including:

- An Internal Audit group that reports to the Board of Directors
- Annual Reports and an Annual General Meeting to report on progress
- Annual Transparency and Accountability Report for filing in the House of Assembly
- Public monthly project benefits reports

Nalcor will issue quarterly consolidated financial statements later this year. The company will retain an external independent auditor to review project-related costs and to prepare a report consisting of consolidated financial statements.

**Do you trust Nalcor and believe they have given you all the information related to this project?**

Ernst & Young were engaged by the Provincial Government to undertake a review of the project with the lens of what information would be required for the oversight committee to perform its mandate. This information has formed part of the Shareholder Letter issued to Nalcor. As per that letter, the committee has full authority to request whatever additional information they should require as a result of any questions or issues that may arise as a result of the review of that information.

**The Provincial Government continues to say it is open and transparent and fully committed to oversight throughout all aspects of the Muskrat Falls Project. How can you say this when the committee was only formed in March and this report contains the bare minimum of information?**

The Provincial Government is committed to prudent oversight of the Muskrat Falls Project. As such, the Provincial Government has ensured that there has been more information made public about this project than any other project in the province's history.

Being the first quarterly report of the committee, it was necessary to take the time to ensure the committee had the appropriate tools and information to meet its objectives.

Given the recent timing of Nalcor's revision to the project budget baseline and the expected receipt of information and reporting from Nalcor regarding the recent budget revision, the committee was not in a position to comment on the project costs and schedule for the July quarterly report. The next quarterly report will include this information. **If the committee determines there are any material issues that arise before the next quarterly report, the committee will issue an interim report.**

**Why can't you just let the PUB take a role in the Muskrat Falls Project? You realize by not doing this, the Provincial Government does not look open and transparent at all.**

The PUB still has a role in Muskrat Falls, including the review of electricity rates.

**The Shareholder Letter lists a number of documents related to the project. Have you seen these documents? Do you have these documents? Are these documents going to be made public?**

The Provincial Government has seen many of these documents in the past some of which have been sent to the Provincial Government prior to the establishment of this committee. Others have been added at the recommendation of the committee and as a result of the Ernst and Young report.

The full reporting of this information will be received by the committee by the end of July/first week of August for the month ended June 30, 2014.

Most of these documents cannot be made public as they contain information at a detailed level which would be commercially-sensitive. The information contained in these documents will form the basis of the committee's review and analysis. The results of the committee's review will form part of the public reports and much of the information contained in these filings will be reported by the committee on a su