

Lower Churchill Management Corporation



Procedure for Incurred Cost

Nalcor Doc. No. LCP-PT-MD-0000-PC-PR-0011-01

<p>Comments: This Procedure is used in association with the <b>Project Controls Management Plan</b> (Doc No. LCP-PT-MD-0000-PC-PL-0001-01_B2), and the <b>LCP Procedure for Cost Control</b> (Doc No. LCP-PT-MD-0000-PC-PR-0005-01).</p>	<p>Total # of Pages (Including Cover):xx <i>20</i></p>
--	--

<b>B1</b>	03-Jun-2016	Issued for Use	<i>J. Grandy</i>	<i>B. Marsh</i>	<i>G. Chehab</i>	<i>P. Harrington</i>	<i>D. Green</i>	<i>R. Power</i>
Status/ Revision	Date	Reason For Issue	Prepared By	Senior Cost Controller	Lead Cost Controller	Functional Manager Approval	Quality Manager Approval	General Project Manager Approval
<b>CONFIDENTIALITY NOTE:</b>		This document contains intellectual property of the Nalcor Energy – Lower Churchill Project and shall not be copied, used or distributed in whole or in part without the prior written consent from the Nalcor Energy – Lower Churchill Project.						

INCURRED COST PROCEDURE		
Nalcor Doc. No.	Revision	Page
LCP-PT-MD-0000-PC-PR-0011-01	B1	2

TABLE OF CONTENTS

1.0 Purpose.....3

2.0 Scope .....3

3.0 Definitions .....3

4.0 Abbreviations and Acronyms.....4

5.0 Reference Documents .....5

6.0 Responsibilities .....5

7.0 Procedure .....7

7.1 General Overview .....7

7.2 Incurring of Owners Cost (Prism).....8

    7.2.1 Inputs..... 8

    7.2.2 Outputs..... 11

    7.2.3. General Expenses .....12

7.3 Incurring of Component and Other Costs (PM+) .....12

    7.3.1 Inputs..... 12

    7.3.2 Outputs..... 13

8.0 Attachments .....14

INCURRED COST PROCEDURE		
Nalcor Doc. No.	Revision	Page
LCP-PT-MD-0000-PC-PR-0011-01	B1	3

**1.0 Purpose**

The purpose of this procedure is to define the roles, responsibilities and actions required to report all costs incurred within the Lower Churchill Management Corporation (LCMC) for the delivery of the Lower Churchill Project (LCP) and its Sub-Projects in accordance with the *Procedure for Cost Control - LCP-PT-MD-0000-PC-PR-0005-01*, and the *Project Controls Management Plan - LCP-PT-MD-0000-PC-PL-0001-01*. Incurred Costs are reported on all Contracts and Purchase Orders, including both internal and external Labour, as well as Intercompany Related Charges.

**2.0 Scope**

This procedure applies to the LCP Project and all LCP Sub-Projects that for execution purposes have been structured by Components as:

- Muskrat Falls Generation (MFG)
- HVdc Specialties (DCS)
- Overland Transmission Lines (OTL)
- Strait of Belle Isle (SOBI) Marine Crossing

And for Asset Alignment (Cost and Schedule) purposes have been structured as:

- Muskrat Falls Generation - MFG
- Labrador Transmission Asset - LTA
- Labrador Island Link - LIL

**3.0 Definitions**

<b>AP Tracking Log</b>	An MS Excel file that contains a log of information generated from the status and location of invoices that are circulated to Package Engineers and Budget Holders for approval and for invoices sent to Corporate Accounts Payable for processing in JDE.
<b>Accrual</b>	An estimate covering the value of work performed but unbilled for at the end of the accounting period.
<b>Corporate Purchasing Card (P-Card)</b>	A Corporate purchasing card used for vehicle related expenses such as maintenance charges and fuel.
<b>Cost Control Accounts</b>	The Cost Control Account is a unique code applied against each item of cost for the Project.
<b>Contract</b>	A legal agreement between two or more parties that binds the respective company to a Financial Commitment and/or obligation to another party

<b>INCURRED COST PROCEDURE</b>		
<b>Nalcor Doc. No.</b>	<b>Revision</b>	<b>Page</b>
<b>LCP-PT-MD-0000-PC-PR-0011-01</b>	<b>B1</b>	<b>4</b>

<b>Incurred Cost</b>	The contractual cost achieved, or assessed value of work done, at the end of the accounting period, regardless of whether invoiced or not. Incurred cost includes the approved invoiced cost plus an estimate of the un-invoiced work performed to be accrued.
<b>JD Edwards</b>	The Accounting System utilized by Nalcor Energy’s Corporate Accounting Group.
<b>LCP Tracker</b>	Customized program with respect to this procedure to manage hours worked on the LCP.
<b>PM+</b>	Integrated Project Management system used to manage and control the execution of the various LCP and Sub-Projects. This is the one tool used to accumulate the cost summaries from other systems and is considered to be the overall reporting tool used.
<b>Prism G2</b>	Project Management tool used by LCP to produce project baseline and control budgets as it relates to indirects and owners costs. The system is used to maintain and monitor these types of costs, however, is not used as an overall reporting tool, as this function is carried out via use of PM+ as the overall reporting functional tool for LCP.
<b>Purchase Order</b>	A type of contract with a provider of goods, equipment or materials with a desired delivery time and with specific quantities and prices.
<b>Work Task Order</b>	<p>A commercial document used to contract services and provides an instruction to the vendor to execute a scope of work under a Master Services Agreement. The Work Task Order, along with the attachments, describes the work scope, resources, hours, schedule, reporting requirements, costs, deliverables, and desired outcomes of the work scope.</p> <p>For contract LC-G-002 (SLI) the WTO is replaced with the Personnel Assignment Authorization (PAA) to draw on resources under that Contract.</p>

**4.0 Abbreviations and Acronyms**

- AP                 Accounts Payable
- CCA               Cost Control Account
- EPC               Engineering, Procurement and Construction
- EPCM             Engineering, Procurement and Construction Management
- JDE                J D Edwards Corporate Accounting System
- LCMC             Lower Churchill Management Corporation
- LCP                Lower Churchill Project
- PCard             Corporate Purchasing Card
- PCMP             Project Controls Management Plan

INCURRED COST PROCEDURE		
Nalcor Doc. No.	Revision	Page
LCP-PT-MD-0000-PC-PR-0011-01	B1	5

PDT	Project Delivery Team
PMT	Project Management Team
PM+	Project Management +
PO	Purchase Order
WO	Work Order
WTO	Work Task Order

**5.0 Reference Documents**

LCP-PT-MD-0000-PC-PL-0001-01	Project Controls Management Plan
LCP-PT-MD-0000-PC-PR-0005-01	Procedure for Cost Control
LCP-PT-MD-0000-FI-PR-0012-01	Procedure for Owner’s Cost General Accounts Cost Allocation
LCP-PT-MD-0000-PC-PR-0015-01	Procedure for Management of Staffing Plan and Forecast
LCP-PT-MD-0000-PC-PR-0017-01	Stewardship Reporting Procedure
LCP-PT-MD-0000-PM-LS-0001-01	Project Dictionary
LCP-PT-MD-0000-PC-LS-0001-01	Project Work Breakdown Structure and Code of Accounts Execution Strategy for the Implementation of Nalcor Intercompany Costs Incurred Cost Flow Diagram Cost Control Reporting Schedule

**6.0 Responsibilities**

**LCP Project Controls Manager:** Responsible for:

- The effective execution, control, and provision of Project Controls functional support to the LCP PMT, and implementation of the *Project Controls Management Plan - LCP-PT-MD-0000-PC-PL-0001-01*.
- Accountable to ensure implementation of this Procedure, with overall responsibility and authority for establishing, monitoring, communicating and verifying its effectiveness.
- Providing functional support to the component cost control teams.

**LCP Lead Cost Controller:** Responsible for:

- Overseeing the effective management and use of the PM+ Integrated Project Management System.
- Complying with the requirements of the Cost Management process as indicated in this procedure.
- Understanding the LCP Project scope and estimate to establish the LCP Project cost baselines and curves.
- Supervising the work of LCP Sub-Component Cost Controllers related to the update on budgets, commitments, incurred cost and change orders, trending and forecasting in the PMS, issuing of timely cost reports and interfacing with various groups within the LCP Project Delivery Team organization.

INCURRED COST PROCEDURE		
Nalcor Doc. No.	Revision	Page
LCP-PT-MD-0000-PC-PR-0011-01	B1	6

- Ensuring this procedure is updated to reflect changes as required.
- Ensuring proper cost allocation throughout the different LCP Components.
- Issuing the LCP Cost deliverables to all LCP Project and Sub-Projects Stakeholders.

**LCP Senior Cost Controller:** Responsible for:

- Overseeing the effective management and use of Prism G2.
- Complying with the requirements of the Owner’s Cost Management process as indicated in this procedure.
- Supervising the work of the LCP Owner’s Cost Controllers related to the update on budgets, commitments, incurred cost and change orders, trending and forecasting.
- Ensuring this procedure is updated to reflect changes as required.
- Ensuring proper cost allocation throughout the different LCP Components.
- Issuing the Owner’s Incurred Cost deliverables to the Lead Cost Controller for input into the monthly reporting process.

**LCP Sub-Project (Component) Project Controls Leads:** Responsible for:

- Delivery of the LCP Sub-Project in accordance to the Project’s Governance and Management Plans. LCP PMT members who have direct responsibility, accountability and ownership for budgets and specific components of the Project, including the Management of costs and schedules associated with the execution of the Project.
- Supervising the work of the Cost Control Teams in their respective LCP Sub-Project (Component).
- Ensuring implementation and application of this procedure, and the proper compilation, analysis, and implementation of incurred costs, and cost reporting.

**LCP Component and Owner’s Cost Controllers:** Responsible for:

- Complying with the requirements of the Cost Management process as indicated in this procedure.
- Understanding the LCP Component scope and estimate to establish the LCP Component cost baselines and curves.
- Analyzing and reporting on budgets, updating commitments and incurred cost, managing change orders in the cost control system, trending and forecasting, analyzing variances, issuing of timely cost reports and interfacing with various groups within the LCP Component Delivery Team organization.
- Ensuring the thoroughness and accuracy of the incurred cost implementation in PM+ and Prism G2.
- Providing cost data to the Lead Cost Controller and assisting in the preparation of cost reports.
- Maintaining close cooperation with Contract Administrators to ensure that proper documentation is received on time from Suppliers/Contractors; especially those required for the preparation of LCP Components cost flows.

INCURRED COST PROCEDURE		
Nalcor Doc. No.	Revision	Page
LCP-PT-MD-0000-PC-PR-0011-01	B1	7

- Maintaining close cooperation with the Change Management team to account for any change that can have a cost impact.
- Uploading cost information into the LCP PMS throughout the life cycle of the LCP Component.

**LCP Cost Analyst:** Accountable for:

- Maintaining the AP tracking log and ensuring accuracy of data.
- Liaise with Cost Controllers as required to discuss invoiced data contained in both PM+ and Prism G2, as well as any related backup documentation, including payment certificates or other sources of payment information.

**7.0 Procedure**

**7.1 General Overview**

Incurred costs for the LCP Project are maintained and monitored within both the PM+ Integrated Project Management System and Prism G2. PM+ is responsible to report the overall project costs, however, cost details that are considered part of the Owner’s scope of work are compiled and monitored within Prism G2 and subsequently transferred to PM+ through summaries of the details via the use of spreadsheets and other reports. Incurred costs are compiled and reported on a monthly basis in accordance with the dates outlined in the Cost Control Calendar.

During the reporting cycle, the Cost Controller will develop the incurred cost to be recorded by making an assessment of the value of the work performed by a Contractor or Supplier during the current period. The Cost Controller will ensure an accurate estimate for incurred cost is calculated based on a thorough review of the approved and unapproved invoiced costs to date as well as a review of the un-invoiced work performed during the period to be accrued utilizing cost, progress, quality and contractor reports, and other sources of data available in the period. The Cost Controller will also validate the incurred estimate against approved budgets and commitments and will investigate any discrepancies.

As part of the analysis of Incurred Cost, the Cost Controllers will ensure that for each Contract and Purchase Order, approved invoiced costs do not exceed approved committed costs. While not a recommended practice, there are instances when an accrual may be calculated on a Contract or Purchase Order that is over and above the commitment value, especially for time and material basis and unit rate type of contracts. This is to be noted, and rectified, through appropriate Change Orders, prior to invoice payment by the Contract Administrator/Buyer. Reconciliation exercises will be completed each period to analyze all accrued costs and make adjustments as necessary.

INCURRED COST PROCEDURE		
Nalcor Doc. No.	Revision	Page
LCP-PT-MD-0000-PC-PR-0011-01	B1	8

In the two Cost Management systems outlined in the following sections, the process of accrual management is the same, in that an accrual that is entered in the current period will be systematically reversed once the period has been closed. The Cost Controller will proceed with the review process in the subsequent period, taking the items previously accrued in consideration, and reviewing whether they have since been invoiced or will require accruing once again.

**7.2 Incurring of Owners Cost (Prism)**

Costs associated with the Owner’s team internal and external labour, SOBI (Strait of Belle Isle), Environmental and Regulatory Compliance, Aboriginal affairs, Commercial and Legal, and Nalcor Intercompany Charges are considered part of “Owner’s Cost”, and are captured and maintained within the Prism G2 Project Management System. This includes all Contracts and POs within these areas, the Budget, Commitment, Incurred, and Forecast data associated with each. The following overview outlines the Procedure for incurring these Costs.

**7.2.1 Inputs**

**a.) Purchase Order Summary Report:**

On a monthly basis, the Cost Controllers responsible for maintaining the Owner’s Costs will run the Purchase Order Summary Report from Prism G2 to obtain the cost data pertaining to all awarded contracts and purchase orders up to the end of the current reporting period. The Cost Controller will review the report and eliminate Professional Services contracts for the LCP Owners Team Labour which are incurred through the timesheet process and intercompany process (*Note: See Item d. which outlines further detail for incurring these types of Professional Services Purchase Orders and Contracts*). Once the Cost Controller removes these types of Professional Services related contracts, the Cost Controller will review all remaining contracts and assess the accuracy of the current incurred value. For the purposes of calculating the current month’s incurred, the Cost Controller will compare the cumulative incurred value from the prior month to the current months incurred value and variances between these figures will be used to form the current months incurred. The Cost Controller will use a number of different techniques to estimate the revised cumulative to date incurred cost such as contractor incurred cost reports, invoiced cost (Prism G2 and AP Log), or complete an estimate based on information provided from the Contract Administrator.

**b.) Cost Reports:**

For all Contracts in which a Cost Report is submitted by the Contractor, the Cost Controller will review the Report to ensure incurred costs are within the parameters



INCURRED COST PROCEDURE		
Nalcor Doc. No.	Revision	Page
LCP-PT-MD-0000-PC-PR-0011-01	B1	9

of the budget, commitment, and invoiced costs for each scope of work under the Contract. The Cost Controller will also review Cost Reports for the previous month and any other information provided, calculate the incurred cost for the current period, and complete the entry within Prism G2 under the appropriate Cost Control Account, and tagging to the Contract and Line Item.

If information contained in a Cost Report is indicating costs greater than the approved commitment value, the Cost Controller will discuss and gain insight from the Contract Administrator/Package Lead the status of any change orders or other documentation, and will not incur greater than the approved commitment value until such changes are officially approved.

**c.) Accounts Payable Tracking Log:**

The Accounts Payable Log is provided by a Cost Analyst from Finance and Accounting upon request by the Owner’s Cost Controllers each month. For Contracts and Purchase Orders in which a Cost Report is not submitted by the Contractor, nor is a Professional Service Contract, the Accounts Payable Log is used as a source of information to calculate the incurred cost. As a rule of thumb, the following is applied:

- Contracts/Purchase Orders with commitment amounts less than or equal to \$25,000: The Contract/Purchase Order is incurred fully in the month the Contract/Purchase Order is executed. During the closeout process, the Cost Controller will review the incurred and adjust to total invoiced value.
- Contracts/Purchase Orders with commitment amounts greater than \$25,000, but less than \$100,000: Invoiced cost will be used for incurred purposes. The Cost Controller will review the current invoiced cost reported in Prism G2, as well as review the invoices on hand documented on the Accounts Payable Log. In some instances, invoices outlined on the Log will already be entered in Prism G2; in other instances, invoices outlined on the Log may be new, or under review and not already be captured within Prism G2. The Cost Controller will review each Contract or Purchase Order individually and calculate an appropriate value for Incurred Cost for the Current Period. This may require consultation with the Contract Administrator/Package Lead to gain insight and determine the appropriate cost to be incurred.
- Contracts/Purchase Orders with commitment amounts in excess of \$100,000: The Cost Controller will review with the Contract Administrator and/or Budget Holder for estimated cost for the current period, however, if the necessary information is not available, the Cost Controller will calculate an estimated cost for the Contract or Purchase Order based on potential trends and consistencies, available progress tables, and/or invoiced data from both Prism G2 and the

INCURRED COST PROCEDURE		
Nalcor Doc. No.	Revision	Page
LCP-PT-MD-0000-PC-PR-0011-01	B1	10

Accounts Payable Log. As above, this may require consultation with the Contract Administrator/Package Lead to gain insight and determine the appropriate cost to be incurred.

**d.) Professional Services-Third Party Consultants (Timesheet Basis):**

Professional Services performed on the LCP are incurred on the basis of employee timesheets input into LCP Tracker on a weekly basis as outlined in [LCP-PT-MD-0000-PC-PR-0015-01 - Procedure for Management of Staffing Plan and Forecast](#). This excludes LCMC Seconded Labour and EPC Consultant Labour. LCMC Seconded Labour is incurred on the basis of intercompany invoicing, outlined in Item e.), and EPC Consultant Labour is incurred in collaboration with a review of the monthly invoice received from the EPC Consultant, SNC Lavalin Inc. (SLI).

To record current month incurred cost for all Professional Service Contracts and Purchase Orders, the Senior Cost Controller will run the incurred report from LCP Tracker ([Timesheet Incurred Report](#)), summarizing CCA, Contract/Purchase Order, cost element, Item, Scope, Hours and Cost expended for the selected period, and review the data for accuracy and completeness. Any exceptions noted will be reviewed on an individual basis and corrected prior to completing the Professional Services monthly incurred. An estimate will need to be calculated for the period between the LCP Tracker incurred report and the month end reporting period if they do not coincide with one another. To estimate total hours, the Senior Cost Controller will calculate the days between the reporting period and incurred report and multiply this by the average total hours per day. An average hourly rate will also be calculated and multiplied by total hours to estimate the Professional Services labour cost between the reporting period and the incurred cost report from LCP Tracker. Once all exceptions are corrected, and estimates calculated, the [Timesheet Incurred Report](#) will be run again, exported into excel, and uploaded into Prism G2. Please refer to [LCP-PT-MD-0000-PC-PR-0015-01 - Procedure for Management of Staffing Plan and Forecast](#) for further detail on the management of LCP labour.

**e.) Professional Services-Nalcor Intercompany Costs:**

Intercompany charges are incurred on the basis of the [Execution Strategy for the Implementation of Nalcor Intercompany Costs](#) (attached herein with this Procedure and implemented in January 2016) against a specific set of Contracts and Purchase Orders in place to capture the flow through of Nalcor Energy, Newfoundland and Labrador Hydro and C(F)Lco costs from JD Edwards to Prism G2. These include items such as LCMC Labour for Seconded Staff, Corporate Labour and Overhead, Fuel and Maintenance Charges, Miscellaneous Purchases, and Specific scopes of work being

INCURRED COST PROCEDURE		
Nalcor Doc. No.	Revision	Page
LCP-PT-MD-0000-PC-PR-0011-01	B1	11

carried out in relation to Component 3-HVdc Specialties. Under the governance of the Execution Strategy, costs are incurred as follows:

- LCP Finance receive the intercompany invoices from Nalcor Corporate and review/validate. Prior to invoices being submitted to Budget Holders/Managers for final approval all intercompany invoices are to be reviewed by Project Controls to ensure that all are coded to the correct PO/Cost Control Account and that all charges appear to be valid charges from Nalcor/NLH/CF are related to the LCP. Following this validation, LCP Finance will update the invoiced data in Prism for each intercompany invoice.
- LCP Finance will forward the monthly intercompany invoice data to Project Controls for use in incurring invoiced costs each month. Project Controls will incur cost based on these monthly invoices and will reconcile with any other available documentation potentially received with more of a timely update.
- In addition, Project Controls will incur an accrual amount for the current month for the specific scopes of work typically billed by Nalcor Corporate on a monthly basis. This will cover off work performed during the current period that has not yet been invoiced. These costs will reverse out when the reporting period is closed, and the accrual amount replaced by actual invoiced amounts as information is input and available in Prism.
- Project Controls/LCP Finance will monitor incurred and invoiced against the overall commitment value for those POs in which there are blanket line item values and evaluate as necessary.
- Project Controls/LCP Finance will advise Supply Chain via requisition of any line item changes to any of the POs, or additional POs required upon the creation of new WTO's.
- On a quarterly basis all PO commitments, invoices and incurred costs will be reviewed and reconciled as required by Finance and Project Controls.

**7.2.2 Outputs**

After the Owner's Cost Controllers finalize all incurred costs for the current reporting period, the Senior Cost Controller will run the Incurred Cost Report for the period and do a final review for accuracy. The Senior Cost Controller will incorporate the Incurred Cost output from Prism G2 for the current period into a consolidated workbook encompassing cumulative Owner's Cost for the LCP, with a copy maintained on the R:\ network drive for each calendar month and year and filed in the monthly cost folders. Costs are categorized according to the applicable Monthly Reporting category (Owner's Team Internal and External Labour, Environmental, Aboriginal Affairs, Commercial and

INCURRED COST PROCEDURE		
Nalcor Doc. No.	Revision	Page
LCP-PT-MD-0000-PC-PR-0011-01	B1	12

Legal, Miscellaneous Construction Costs (primarily Strait of Belle Isle)), as referenced in [LCP-PT-MD-0000-PC-LS-0001-01 - Project Work Breakdown Structure and Code of Accounts](#), and provided to the Lead Cost Controller for incorporation into the PM+ Integrated Project Management System, and ultimately for compilation into the LCP monthly reporting deliverables. Note, files and data containing accrual calculations are maintained and stored on the R:\ network drive in the monthly cost folders, and are available for historical reference and validation.

**7.2.3. General Expenses**

As defined in [LCP-PT-MD-0000-PC-LS-0001-01 - Project Work Breakdown Structure and Code of Accounts](#), Owner’s Costs considered as General Expenses (Project Management, Administration and Overhead Costs) are incurred to the LCP overall and therefore are difficult to assign to a specific Project Asset. Each month these costs are allocated across the LCP Assets for reporting purposes based on an allocation percentage matrix that is calculated at the beginning of the fiscal year based on the forecasted capital construction cost of each project. At year end the allocations are reviewed to assess if the allocation percentage determined during the budget process was accurate and equitable.

If adjustments in the allocation percentage are deemed necessary, this is completed prior to year-end close and applied retroactively to the entire year. This is done to ensure that the costs are fairly assigned to each of the LCP Assets. It is the responsibility of the Senior Cost Controller in conjunction with the LCP Finance Team to define the allocation percentage at the beginning of the year and make the necessary adjustments at year end closing. Please refer to [LCP-PT-MD-0000-FI-PR-0012-01 - Procedure for Owner’s General Accounts Cost Allocation](#) for further detail.

**7.3 Incurring of Component and Other Costs (PM+)**

Costs for all other scopes of work related to the majority of Construction and Procurement activities under the LCP are captured and maintained within the PM+ Integrated Project Management System. The methodology of developing incurred cost for this section remains consistent with the methods outlined in Section 7.1. The following overview outlines the Procedure for incurring these Costs.

**7.3.1 Inputs**

- Incurred cost is calculated using physical progress, contracts terms, delivery dates, contractor reports etc. Cost Controllers are responsible to maintain the incurred costs of the project up to date, ensuring validation against approved budgets and commitments.

INCURRED COST PROCEDURE		
Nalcor Doc. No.	Revision	Page
LCP-PT-MD-0000-PC-PR-0011-01	B1	13

- The incurred cost process begins with the Cost Controllers coordinating with the Contractors/Suppliers and Contract Administrator/Buyers to provide a monthly incurred cost for each awarded contract. Upon receipt of the monthly incurred cost reports the Cost Controllers will validate the data provided by the contractors, and update incurred cost values in PM+ to reflect the latest incurred cost against each Contractual item.
- If the Cost Controller receives Contractor information indicating work performed that has NOT been approved:
  - o If the work performed is within the scope of the Contract, the Cost Controller will report incurred costs over and above the contract commitment value as an accrual, and will coordinate with the Contract Administrator on the status of pending change order(s).
  - o If the work performed is NOT within the scope of the Contract, the Cost Controller will not report incurred costs over and above the contract commitment value, will coordinate with the Contract Administrator and will hold until receive notice of an official change order.
- The Cost Controller will review any and all discrepancies identified with the Contract Administrator.

**7.3.2 Outputs**

Once the Cost Controllers have finalized the incurred cost update for the current period, the Lead Cost Controller will review the data for reasonableness and ensure the alignment of values with the overall LCP Sub-Projects. The Lead Cost Controller will compile the incurred cost data, and initially provide the monthly incurred cost and cost flow to the Finance Group to initiate the month end accrual process and assist with the month end reconciliation between PM+, Prism G2, and JD Edwards. Note, files and data containing accrual calculations are maintained and stored in component specific monthly folders on the network drive, and are available for historical reference and validation.

In addition, the Cost Controllers will provide the responsible Contract Administrator for each Contract a report outlining the variances between Incurred versus Committed by Contract.

Ultimately the incurred cost data is incorporated into the LCP Monthly Cost Overview, comprised of Cost Reports, Incurred and Forecast Curves, as required monthly deliverables contained within the LCP Stewardship and outlined under the *Stewardship Reporting Procedure - LCP-PT-MD-0000-PC-PR-0017-01*.

INCURRED COST PROCEDURE		
Nalcor Doc. No.	Revision	Page
LCP-PT-MD-0000-PC-PR-0011-01	B1	14

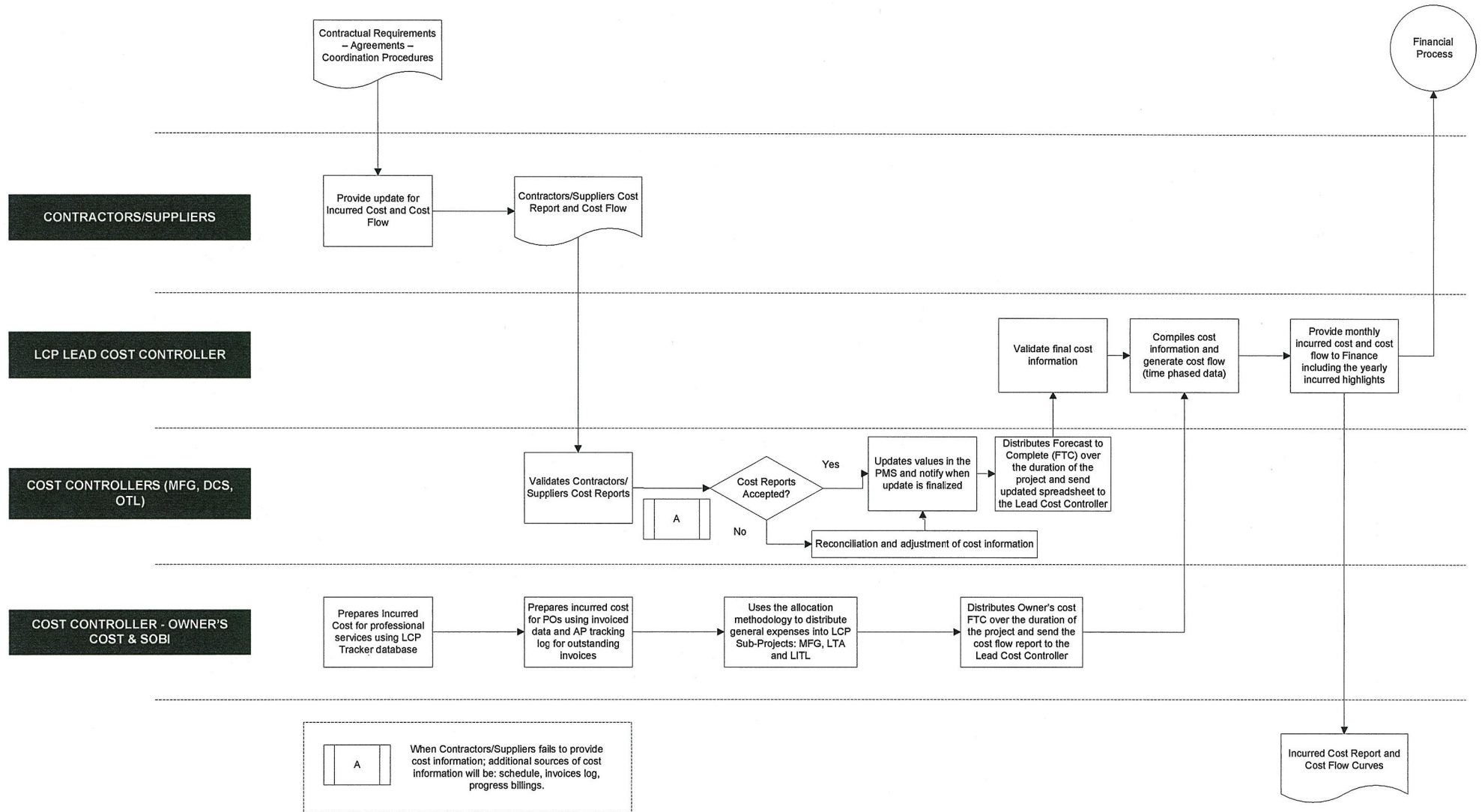
**8.0 Attachments**

Incurred Cost Flow Diagram  
 Execution Strategy for the Implementation of Nalcor Intercompany Costs

<b>INCURRED COST PROCEDURE</b>		
<b>Nalcor Doc. No.</b>	<b>Revision</b>	<b>Page</b>
<b>LCP-PT-MD-0000-PC-PR-0011-01</b>	<b>B1</b>	<b>15</b>

**ATTACHMENT 8.1  
INCURRED COST FLOW DIAGRAM**

Lower Churchill Project	Project Controls	Incurred and Cost Flow	1 of 1	Revision	Date issued	Approved by
				B1	06-Nov-2014	





<b>INCURRED COST PROCEDURE</b>		
<b>Nalcor Doc. No.</b>	<b>Revision</b>	<b>Page</b>
<b>LCP-PT-MD-0000-PC-PR-0011-01</b>	<b>B1</b>	<b>16</b>

**ATTACHMENT 8.2**  
**EXECUTION STRATEGY FOR the IMPLEMENTATION OF NALCOR INTERCOMPANY COSTS**

**Execution Strategy**  
**Implementation of Nalcor Intercompany Costs on the Lower Churchill Project**

**General:**

The following strategy outlines an updated process in ensuring all Nalcor Energy/CFLCo/NL Hydro costs are captured, implemented, and reported on the Lower Churchill Project for the duration of the project in an efficient and timely manner.

Functional teams required to assist with this implementation include, but are not limited to:

- Project Controls
- Finance
- Supply Chain

Systems involved include, but are not limited to:

- Prism G2 (Cost Control, Financial Management and Supply Chain Management of all LCP Owners POs and Costs)
- JD Edwards (Nalcor Energy Corporate Financial Management System)
- LCP Tracker (LCP Labour Tracking/Timesheet Management and Change Management System)

**Prior structure:**

The major Nalcor Energy/NL Hydro Active POs currently active in Prism include:

- LC-G-005: 2015 Nalcor/NL/CFLCo labour not related to specific scopes of work
- LCP01875: comprised mainly of corporate overhead expenses and P-card costs
- LC-PM-025: comprised of Nalcor/NL Hydro Work Task Orders (WTOs)
- LC-PM-159: comprised of Nalcor/NL Hydro Work Task Orders (WTOs)
- LC-PM-162: comprised of Nalcor Staff Labour

**Implementation Strategy:**

1. All costs currently incurred in the 2015 calendar year under the POs indicated above through prior processes (excel files provided by Nalcor Corporate, LCP Tracker, other, etc..) will be reconciled with the 2015 Nalcor intercompany invoices. This will be completed by Project Controls (Note: **Completed**).
2. At year end, all costs (historical, and up to and including December 2015) under the active POs listed above will be reconciled in Prism. Adjustments will be made to align committed=incurring=invoiced. Project Controls will ensure the adjustment of incurred costs, and finance the adjustment of invoiced costs. Supply Chain will be provided a spreadsheet outlining the adjustments to be made for each PO commitment, by line item.
3. Once complete, these POs will be closed out, and the new structure outlined below will be implemented.
4. Implementation will take effect January 2016; however, preliminary work, including set up of the new structure, will be completed prior to year-end in order to facilitate efficient and timely transition.
5. An exception to this is the scope of work carried out under various WTO's noted in Item g. Once the new structure has been set up, all costs associated with these WTO's will be transferred accordingly, without waiting for the year-end cut off.

**Note: Further discussion to be had on whether all historical costs up to and including year-end 2015 will be transferred to the new PO setup.**

6. The following is proposed as the new structure to capture all Nalcor Energy/NL Hydro intercompany costs:
  - a.) PO No. NHR0001 – LCMC Staff Labour (seconded) costs:
    - i.) Budget Owner: LCP Corporate Integration Manager.
    - ii.) Based on the MFL forecast for Nalcor seconded staff and work term students.

- 
- iii.) Assumption is that positions currently occupied by Nalcor staff will continue to be occupied by same and if vacancies in these positions occur during 2016 they will be filled by Nalcor staff.
  - iv.) Each line item will correspond with one MFL CCA code and will reflect multiple positions being charged to that CCA code.
  - v.) Commitment value for each line will reflect the MFL forecast for 2016 by CCA – information will be provided by Project Controls.
- b.) PO No. NHR0002 – Nalcor Corporate Labour:
- i.) Budget Owner: LCP Project Director.
  - ii.) Based on historical cost for Corporate Staff.
  - iii.) Overall PO will contain total commitment value against a single control account (5.1.111.0000.9000.04.00 - Nalcor/NLH/CF Labour not captured elsewhere) for corporate or NLH staff completing any work for LCP that is not captured under a specific scope of work i.e. IT support, HR support, Treasury/Investment, Insurance.
  - iv.) On a monthly basis the Incurred cost and invoiced data will be entered against each line item, with monitoring required to ensure overall commitment value is not exceeded.
  - v.) At the end of each month the incurred and invoiced costs will, for reporting purposes be allocated to each of the assets using the 2016 budget general allocation rate. At 2016 year end these allocated costs will be reconciled using the final allocation rates.
- c.) PO No. NGE0001 – Nalcor Corporate Overheads – Admin Fees, AP Charges, LCP portion of corporate IS Capital Projects, P-Cards, miscellaneous purchases
- i.) Budget Owner: Commercial Manager.
  - ii.) Commitment value for each line item will be based on historical costs by asset.
  - i.) Incurred cost and invoiced data will be entered against each line item, with monitoring required to ensure overall commitment value is not exceeded.
  - ii.) As additional items considered in the miscellaneous category are billed from month to month, Supply Chain will be notified to add line items accordingly.
- d.) PO No. NGE0002 – Nalcor – Fuel/Maintenance charges for LCP Vehicles:
- i.) Budget Owner: Deputy General Project Manager.
  - ii.) Commitment value for each line item will be based on historical costs by asset; estimated value will be agreed upon and provided by Finance per data from JD Edwards.
  - iii.) Each month Finance will provide breakdown of charges by asset to Project Controls.
- e.) PO No. NGE0004 – NL Hydro - MF Power Consumption:
- i.) Budget Owner: Project Manager Muskrat Falls Generation.
  - ii.) Commitment value will be based on budget
- f.) PO No. NGE0005, NGE0006, NGE0007 etc.
- i.) Budget Owner: Project Manager HVdc Specialties.
  - ii.) These POs will capture the major scopes of LCP work being carried out by Nalcor Energy/NL Hydro/CF under the supervision of Component 3 according to the WTO.
  - iii.) Each WTO will have a separate PO.
  - iv.) Commitment value for each PO will be based on the WTO budget.
  - v.) Each PO will be set up with either one, or multiple line items depending on the breakdown of the work.

- 
- vi.) Major scopes of work include:
- |   |  |         |
|---|--|---------|
| - | NE0078 - AC Breaker Upgrade (Hydro)      | NGE0005 |
| - | NE0076 - ECC Upgrades (Hydro)            | NGE0006 |
| - | NE0085 - Upgrade Line Protection (Hydro) | NGE0007 |

7. Project Controls/LCP Finance will prepare a requisition with all associated backup outlining the new structure by PO, line item, and committed cost and provide to Supply Chain for implementation into Prism.
8. On a go forward basis:
- a.) LCP Finance will receive the intercompany invoices from Nalcor Corporate and review/validate. However prior to invoices being submitted to Budget Holders/Managers for final approval all intercompany invoices are to be reviewed by Project Controls to ensure that all are coded to the correct PO/Cost Control Account and that all charges to appear to be valid charges from Nalcor/NLH/CF related to the LCP.
  - b.) Every month LCP Finance will update the invoiced data in Prism for each invoice in accordance with the new PO structure.
  - c.) Project Controls will incur an accrual amount each month that will reverse out when the reporting period is closed. As per item e. Below this accrual amount will be replaced by the actual invoiced amounts monthly.
  - d.) LCP Finance will forward the intercompany invoice data to Project Controls for use in incurring invoiced costs each month.
  - e.) Project Controls will incur cost based on monthly invoices and will reconcile with any other available documentation potentially received with more of a timely update (presentations received from C3 with to NE0076, NE0078 and NE0085).
  - f.) Project Controls/LCP Finance will monitor incurred and invoiced against the overall commitment value for those POs in which there are blanket line item values and evaluate as necessary.
  - g.) Project Controls/LCP Finance will advise Supply Chain via requisition of any line item changes to any of the POs, or additional POs required upon the creation of new WTO's.
  - h.) On a quarterly basis all PO commitments, invoices and incurred costs will be reviewed and reconciled as required by Finance and Project Controls.

**Note: The timing of information is still an outstanding issue for resolution. i.e. Labour costs for WTO scopes of work billed months after being completed.**