

From: JamesMeaney@lowerchurchillproject.ca
To: Martin.Craig
Cc: GBennett@nalcoreenergy.com; PHarrington@lowerchurchillproject.ca; EdBush@lowerchurchillproject.ca
Subject: Cost Variances
Date: Wednesday, December 17, 2014 5:00:05 PM

Hi Craig

I had to chance to follow up with Ed and the Project Controls team after our call earlier this afternoon. To build upon the responses below that I provided last night:

- With respect to LIL, progress was 5% ahead of plan (16.2% actual progress vs. 15.4% planned), resulting in a cost variance of \$21m above plan. Cost drivers included an earlier than planned start of HVdc line construction (\$14m) and advancement of earthworks at the Strait of Belle Isle (\$5m).
-
- With respect to LTA, the HVac Transmission line construction represents \$11m or 73% of the \$15m below plan variance. As noted below, that reflects lower than planned expenditures in the current year which is expected to be made up in subsequent periods. Lower than planned earthworks incurred costs at MF/CF sites also accounts for \$3m.
-
- With respect to MF, there is no single activity that accounts for any material amount of the variance.

To provide some context on MF, as well as the other components, I think it would be helpful to get re-grounded in what incurred costs represent. Each month it is determined based on (i) invoices that have been paid (known amount), (ii) invoices in hand that are yet to be paid (known amount), and (iii) an estimate of progress/costs to be incurred in the last 5 days of the month as the cut-off for contractor submissions is the 25th.

In simplistic terms, back in June when we re-baselined to \$6.990 billion we looked at incurred costs up to that point and the estimated Cost to Complete over the remaining life of the Project and set a monthly incurred cost series that became the "plan" we measure against going forward. This was done at the package level, then rolled up to the 3 project components, and then finally the total Project. Then you carry forward to the end of the current reporting period and measure TTD incurred costs against plan. Given that there's a degree of estimated progress/cost in both your plan and incurred figures, I'm sure you can appreciate there's going to be some minor variation within a reasonable level of estimating accuracy. So when you look at a \$5m or 0.5% variation in MF on over \$1 billion in incurred costs, or even a 5-6% (\$15-20m) variance in LIL and LTA, we view them as being normal planning tolerances for a project this magnitude and believe that should be the way it's positioned to the public in the Oversight Committee report. Obviously if the variances are

much more significant we'd appreciate the desire to provide a more detailed variance analysis and explanation.

Hopefully you find this helpful. By all means let us know if you have any additional questions.

Regards

Jim

James Meaney

General Manager Finance

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----- Forwarded by James Meaney/NLHydro on 12/17/2014 04:46 PM -----

From: James Meaney/NLHydro
To: cmartin@gov.nl.ca,
Cc: Paul Harrington/NLHydro@NLHydro, Karen O'Neill/NLHydro@NLHydro, Ed Bush/NLHydro@NLHYDRO
Date: 12/16/2014 04:59 PM
Subject: comments

Hi Craig

Pg 2 - \$1.3 billion represents Interest During Construction (IDC)/Allowance for Funds Used During Construction (AFUDC) plus other financing related amounts. It is not just IDC.

10 - "...lower the project cost and reduce risk **by allowing more time to complete stabilization work**...". The reason why cost/risk will be lowered already there. In response #1 on pg 27 you should update the 2nd sentence to also reflect this, ie. "...lower the project cost and reduce risk **by** allowing the contractor more time to complete stabilization work." instead of "...**and** allowing...". I think that may have been a typo on our part.

16 - With respect to LIL being ahead of plan on cost and progress, explanation as follows "**.....the cost and** schedule variance related primarily to work on the SOBI, particularly the Transition Compounds which had progressed ahead of schedule." You can then remove the next sentence.

17 - With respect to LTA being ahead of plan on progress and below plan on cost, explanation as follows "...the schedule variance related primarily to work at the Churchill Falls Switchyard

which was progressing ahead of schedule. **The cost variance related primarily to lower than planned expenditures in the current year for HVac transmission line construction.**"

30 - While I believe the progress reports you reviewed group "Powerhouse and Intake and Spillway **Gates**" together, it might be best to remove the reference to "Gates". The Powerhouse, Intake & Spillway is contract CH0007 with Astaldi, however, the Gates is actually a separate contract CH0032 with Andritz. Minor point of clarification.

Regards

Jim

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