

**From:** [Carter, Paul](#)  
**To:** [Muisse, Jason](#)  
**Cc:** [Bown, Charles](#)  
**Subject:** RE: SNC Risk Assessment - 2013  
**Date:** Wednesday, July 12, 2017 2:57:58 PM

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Jason, I just wanted to let you know that while this email was addressed to Charles he was not included on the distribution list. By way of this email I am copying him on it. Also wanted to let you know that we are looking at the 20<sup>th</sup> next week for the next OC meeting, barring anything unforeseen. I will advise by weeks end.

Kindest, Paul

Paul Q. Carter  
Executive Director – Muskrat Falls Oversight Committee  
Cabinet Secretariat, Executive Council  
Government of Newfoundland and Labrador  
PO Box 8700  
St. John's, NL  
A1B 2Z8  
Phone: 709-729-3681  
Email: [paulcarter@gov.nl.ca](mailto:paulcarter@gov.nl.ca)

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**From:** Muise, Jason <[JasonMuise@gov.nl.ca](mailto:JasonMuise@gov.nl.ca)>  
**Sent:** Thursday, July 6, 2017 5:14 PM  
**To:** Brewer, Donna; McIntosh, Gordon; Martin, Craig; Cowan, John; Day, Elizabeth; Quinlan, Krista; Grandy, Cory; Pelletier, Randy; Peyton, Sterling; Muise, Jason; Newhook, Vanessa; Feehan, Jim  
**Subject:** RE: SNC Risk Assessment - 2013

Charles

This report, and the subsequent public discussion, has lead me to read through the various Nalcor documentation related to project controls, and risk management processes used on the project.

Reference is made to the attached “Project Risk Management Plan” which outlines Nalcor’s risk management process. Nalcor have divided risk into both “tactical” and “strategic”. Tactical risk were defined as those associated with the base capital estimate, as a result of uncertainties from:

- 1) project definition and scope omission,
- 2) construction methodology

- 3) performance factors, and
- 4) price. It excludes price escalation.

The second risk category “Strategic risks” were defined as background risks which were outside the controllable scope of the project team, related to external issues, such as regulatory, financial etc.

Document LCP-PT-MD-000-PC-PI-001-01 provided on the Nalcor Portal, provides further guidance as to how strategic and tactical risks should be allocated in the Cost Estimate for the project. The allowance for the tactical risk was included in the Original Control Budget, and I believe every revised budget which has been presented over the last 4 years. The calculation for the tactical risk provision contained within the DG2 estimate was included within exhibit CE-51, provided to the PUB during the 2012 review. The risk allocation in DG2 was \$526 million, relating to about 16% of the estimate at the time.

However both the Project Controls Management Plan and the Risk Management plan clearly references that the Strategic risk would be covered by a “Management Reserve” which was owned not by the Project Team, but by the Gatekeeper of the project (ie; CEO of Nalcor).

Figure 14 of the attached Project Controls Procedure illustrates this concept.

I do not believe that any cost estimate provided to the public included any allowance for Strategic risks, and I have never heard of a “Management Reserve” until I read the attached document. It is unclear if Nalcor ever maintained a “Management Reserve” outside the control budget at any time since the project was sanctioned?

What is documented is that at DG2, there was a decision made by Nalcor to not include any management reserve for Strategic risks. This was due to the potential upside offered by the FLG. This is documented within the public domain in exhibit CE-52 provided to the PUB [http://www.pub.nl.ca/applications/MuskratFalls2011/files/exhibits/abridged/CE-52\(R1\)-Public.pdf](http://www.pub.nl.ca/applications/MuskratFalls2011/files/exhibits/abridged/CE-52(R1)-Public.pdf)

Reviewing the summary between DG2 and DG3 cost estimates <http://muskratfalls.nalcorenergy.com/wp-content/uploads/2013/03/Key-Changes-Affecting-Muskrat-Falls-Project-Estimates.pdf> I do not believe there was any strategic risk reserve added in the DG3 cost estimate communicated to the public. In fact the total contingency was reduced between DG2 and DG3, and the FLG impact was included in the DG3 CPW analysis.

The level of project contingency was viewed to be too low by the Independent Engineer as early as their November 2013 report.

EY in their 2016 report also identified that Nalcor were not costing Strategic risks in their estimates. EY took exception to Nalcor’s methods:

- ▶ risks defined by Nalcor as strategic are not allowed for in the financial forecast;
- ▶ the potential cost and schedule impacts of all individual risks are recorded in the Project’s risk register but are not systematically reflected in the overall reported forecasts for cost and schedule; and

► some anticipated material cost variances have only been reflected in the forecast cost when they are contractually committed.

Within the 2013 report SNC as EPCM contractor effectively delivered a quantitative probabilistic assessment of the entire risk envelope for the project. The likely financial impact of the risk was nearly an order of magnitude higher than the contingency allowed by Nalcor within the DG3 estimate. Although the total cost estimate at Financial Close in late 2013 was slightly higher than the DG3 estimate, there was clearly no contingency at levels recommended by SNC Lavalin some 6 months prior.

It is also unknown if there was a separate “Management Reserve” which was held by Nalcor outside of the original project budget, as was suggested by the Project Controls Plan.

Like most followers of this project I am deeply troubled by the allegation that this report was presented to senior Nalcor management back prior to financial close of the project.

But I am also troubled by the notion of a “Management Reserve” which was documented to be held by the CEO of Nalcor, but to my knowledge never communicated to the Public, or included within the financial reporting. I would like Nalcor to offer commentary on this “Management Reserve”, however I acknowledge this historical review may be outside the remit of the Oversight Committee.

What is within the mandate of the oversight committee is (i) that the current cost estimates include provisions for the likely impact of all risks; and (ii) financial disclosure is in compliance with Canadian GAAP and IFRS requirements for projects of this nature.

On the second point I would request that EY scope be extended to provide specific guidance on forecasting of future costs when reporting “Property Plant and Equipment” under both IFRS and Canadian GAAP. Alternatively the Department of Finance may be able to clarify the requirements for reporting liabilities on the balance sheet on this type of capital works development. From my own experience when applying accounting standards for construction contracts that all foreseeable costs should be included in forecasting including risks which Nalcor describe as being strategic. I do recognize that this would have different applicability in this case with a Crown Corporation, in a regulated environment.

Clearly we must all agree that future reporting by Nalcor must meet recognized accounting standards for project cost control. We must also agree that for the Oversight Committee to serve any real value, that Nalcor need to provide full transparency on the future project forecast to complete, which is inclusive of any and all elements which will contribute to the final cost of the project, and have a potential impact of rates to the Newfoundland consumer.

I look forward to our next discussion.

Jason

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**From:** Bown, Charles

**Sent:** Friday, June 23, 2017 3:23 PM

**To:** Brewer, Donna <[dbrewer@gov.nl.ca](mailto:dbrewer@gov.nl.ca)>; McIntosh, Gordon <[GordonMcIntosh@gov.nl.ca](mailto:GordonMcIntosh@gov.nl.ca)>; Martin, Craig <[CMartin@gov.nl.ca](mailto:CMartin@gov.nl.ca)>; Cowan, John <[JCowan@gov.nl.ca](mailto:JCowan@gov.nl.ca)>; Day, Elizabeth <[ElizabethDay@gov.nl.ca](mailto:ElizabethDay@gov.nl.ca)>; Quinlan, Krista <[KristaQuinlan@gov.nl.ca](mailto:KristaQuinlan@gov.nl.ca)>; Jacobs, Heather <[heatherj@gov.nl.ca](mailto:heatherj@gov.nl.ca)>; Grandy, Cory <[corygrandy@gov.nl.ca](mailto:corygrandy@gov.nl.ca)>; Pelletier, Randy <[RandyPelletier@gov.nl.ca](mailto:RandyPelletier@gov.nl.ca)>; Peyton, Sterling <[SterlingPeyton@gov.nl.ca](mailto:SterlingPeyton@gov.nl.ca)>; Muise, Jason <[JasonMuise@gov.nl.ca](mailto:JasonMuise@gov.nl.ca)>; Newhook, Vanessa <[VanessaNewhook@gov.nl.ca](mailto:VanessaNewhook@gov.nl.ca)>; Feehan, Jim <[JimFeehan@gov.nl.ca](mailto:JimFeehan@gov.nl.ca)>

**Cc:** 'Jim Feehan' <[j.feehan@](mailto:j.feehan@)>; 'jason muise' <[muise.jason@](mailto:muise.jason@)> 'Vanessa Newhook' <[vnewhook71@](mailto:vnewhook71@)> 'Sterling Peyton' <[sterling.peyton@](mailto:sterling.peyton@)>

**Subject:** SNC Risk Assessment - 2013

Committee Members:

I have attached a copy of the SNC-Lavalin Risk Assessment report 2013 as referenced in the Premier's news conference today.

Charles