From: Collins, Michael
To: "Richard Westney"
Subject: RE: Worst case value for productivity
Date: Thursday, May 30, 2019 11:06:05 AM

Dick,

Thank you! That is helpful, but leaves me a bit confused.

You've explained that Westney came into the June 4–5 meetings having already calculated a "strawman" figure of $600 million. In the June 4–5 meetings Nalcor instructed Westney to replace this figure with $350 million. My basic objective is to understand how the shift from $600 million to $350 million happened.

Mr. Kean explained that the $350 million labour productivity exposure consisted of an all-in cost per hour—approximately $100/hr—multiplied by a total number of work hours—approximately 3.5 million. He indicated that Nalcor provided "how many person hours were in the estimate" and "what our hourly rates were", and Westney provided an analysis "from their metrics" of what the worst case would be.

I can see two ways to reconcile these statements:

1) Going into the June meetings, Westney calculated a maximum exposure of $600 million based on Westney's understanding of productivity risk, the number of person hours in the estimate, and the hourly rates. At the June meetings, Nalcor instructed Westney to reduce this exposure to $350 million, based on their different perception of the risks.
2) Going into the June meetings, Westney calculated a maximum exposure of $600 million without access to the number of person hours in the estimate or the labour rates. At the June meetings, Nalcor provided the number of person hours in the estimate and the hourly rate, and Westney recalculated the exposure. With this new information, Westney's understanding of productivity risk implied a lower exposure of $350 million.

Perhaps there are others.

The first narrative seems to contradict Mr. Kean's testimony, but is consistent with Westney's understanding of the productivity risks and of the LCP. The second narrative is consistent with Mr. Kean's testimony, but is more difficult to square with Westney's information and understanding.

Can you help me understand this? Was the shift from $600 million to $350 million a shift in Westney's analysis due to new information about the number of hours in the estimate and the labour rates, or was it a decision by Nalcor to substitute its view of productivity risk for Westney's?

Thanks again,
Michael

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From: Richard Westney <r_westney@westney.com>
Sent: Thursday, May 30, 2019 9:41 AM
To: Collins, Michael <MichaelCollins@muskratfallsinquiry.ca>
Subject: RE: Worst case value for productivity

Good morning Michael

I have reviewed Mr. Kean's testimony as quoted in your email, and the specifics of your question, with Mr. Dodson.

While he does not remember specifically, Mr. Dodson advises that we might have "framed" their numbers as stated by Mr. Kean, since we did handle the mechanics of the mathematics required to run the model.

Best regards,

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