

**From:** lanceclarke@lowerchurchillproject.ca  
**To:** [Ron Power](#)  
**Subject:** Fwd: Governance change  
**Date:** Wednesday, May 18, 2016 3:23:36 PM  
**Attachments:** [.png](#)  
[PM structure.pptx](#)

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Sent from my iPad

Begin forwarded message:

**From:** "Lance Clarke" <[LanceClarke@lowerchurchillproject.ca](mailto:LanceClarke@lowerchurchillproject.ca)>  
**To:** "James Meaney" <[JamesMeaney@lowerchurchillproject.ca](mailto:JamesMeaney@lowerchurchillproject.ca)>  
**Cc:** "Brian Crawley" <[BrianCrawley@lowerchurchillproject.ca](mailto:BrianCrawley@lowerchurchillproject.ca)>, "Gilbert Bennett" <[GBennett@nalcoreenergy.com](mailto:GBennett@nalcoreenergy.com)>, "Jason Kean" <[JasonKean@lowerchurchillproject.ca](mailto:JasonKean@lowerchurchillproject.ca)>, "Paul Harrington" <[pharrington@](mailto:pharrington@)>  
**Subject: Re: Governance change**

Needs work but provides the basis of a structure.....

*(See attached file: PM structure.pptx)*

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James Meaney--05/17/2016 02:50:18 PM--From: James Meaney/NLHydro To: "Paul Harrington"

<[pharrington@](mailto:pharrington@)[REDACTED]>

From: James Meaney/NLHydro

To: "Paul Harrington" <[pharrington@](mailto:pharrington@)[REDACTED]>

Cc: Jason Kean/NLHydro@nlhydro, Lance Clarke/NLHydro@nlhydro, Brian Crawley/NLHydro@nlhydro, Gilbert Bennett/NLHydro@nlhydro

Date: 05/17/2016 02:50 PM

Subject: Re: Governance change

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Hi Paul

About a half hour before you sent this note I had a discussion with Derrick and this was the approach I suggested to him made the most sense as well

Regards

Jim

Sent from my iPhone

> On May 17, 2016, at 2:08 PM, Paul Harrington <[pharrington@](mailto:pharrington@)[REDACTED]> wrote:

>

> I have had a chat with Gilbert. Here is what we propose

> Based upon the limited information we have we need to come forward with a governance model that reflects the addition of a VP Lta and Lil incl Sobi

> We need to be sure we maintain the functionality and respects all agreements with the Feds whilst causing the minimum disruption

> I propose that we keep everything beneath me the same and simply add John at the same level as Gilbert

> We will need to change the financial matrix

> Let's get together tomorrow and build a deck then once we are aligned we include John . I am proposing this two step approach because we have better in depth knowledge of what is the least disruptive method of achieving the goal of two VPs without splitting the team and going backwards

> Regards Paul

>

# LCP Project Management Structure and Approach

May 2016

Boundless Energy



# Agenda

- Project Management Structure History and Standards
- Current Project management Structure
- Overall Corporate Structure and Relationships
  - Lower Churchill Project Management Company Structure
- Go Forward Structure

# Project Management Structure History and Standards

# Project Management Structure History

- PEP Management Systems – Jason

# Project Delivery History – Nalcor is the Integrator

## Strategic Objectives

Balancing absolute cost against cost certainty, while...

- Achieving the required project quality
- Optimizing the project schedule
- Minimizing overall cost and schedule risk
- Achieving optimum and appropriate risk allocation
- Meeting benefits and First Nations obligations



## Decision 1: Delivery Model = Integrated Team

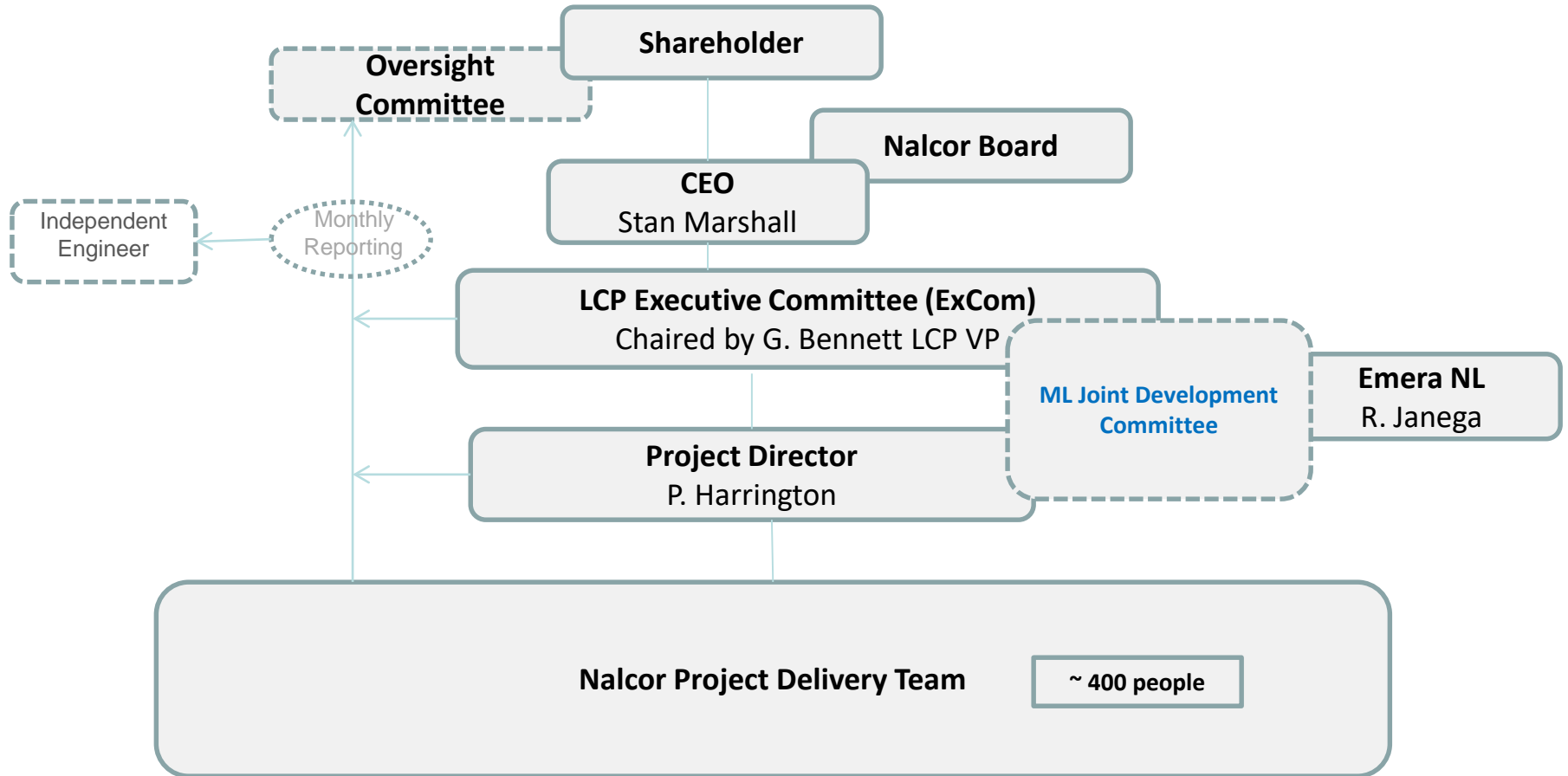
- Market not amenable to single EPC, but to smaller EPC
- Skillsets vary across the 3 SPVs
- Significant schedule advantage (~8mths)
- Offers enhanced Design Integrity & Performance
- 3 separate SPV's need individual, distinct delivery representation,
- Overarching system design and management needed across the SPV's to ensure total system delivery



## Decision 2: Packaging Strategy

- Each SPV has varied skill sets – need to align to bidder resources and capacities
- Market desires are clear for most major packages
- Optimize risk allocation
- Maximizes market competition
- Heavily focusing on EPC, lump sums, and fixed unit price
- Reflect IBA Obligations

# LCP - Governance & Delivery





# Project Management Structure

## Standards/Industry Reviews

CIMFP Exhibit P-04106

Page 9

- PMBOK
- IPA review – Slide 20 and 21 inserted (Provide copy of rest of deck)
- Westney

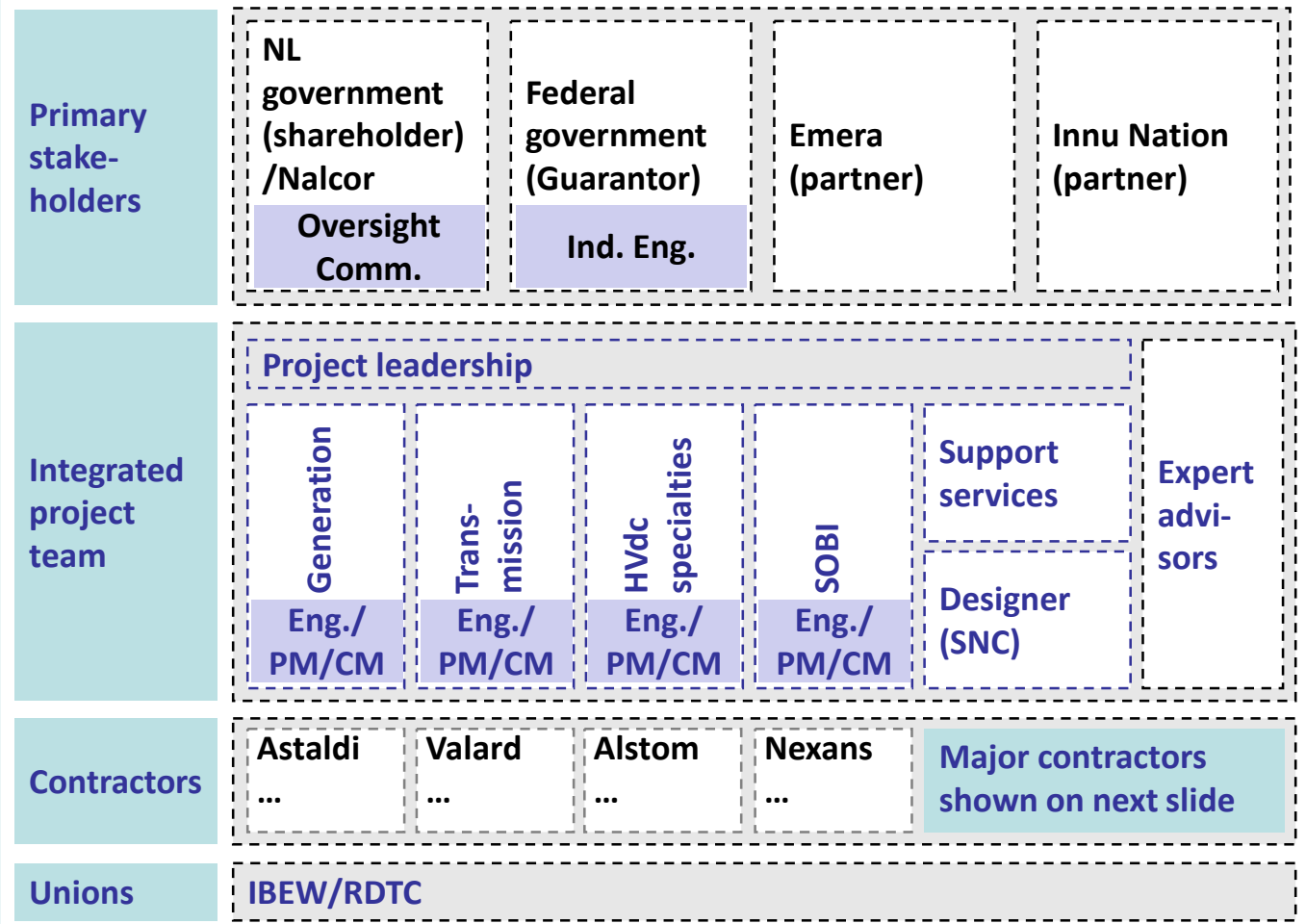
# Current Project Management Structure

# Current Structure - Owner's team includes design, procurement, and construction management roles

## Details of Owner's team

- LCP is managed by an integrated project team concept to manage the many stakeholders, contractors, and geographical dispersion of the work
- Organization model designed to reflect execution and contracting strategy. Model supported by Independent Eng. and IPA
- The project team is staffed with a mix of Nalcor personnel, consultants, staffing agencies, and engineering companies (e.g., SNC, Hatch)

## Owner's team is organized to manage contractors and interface with stakeholders

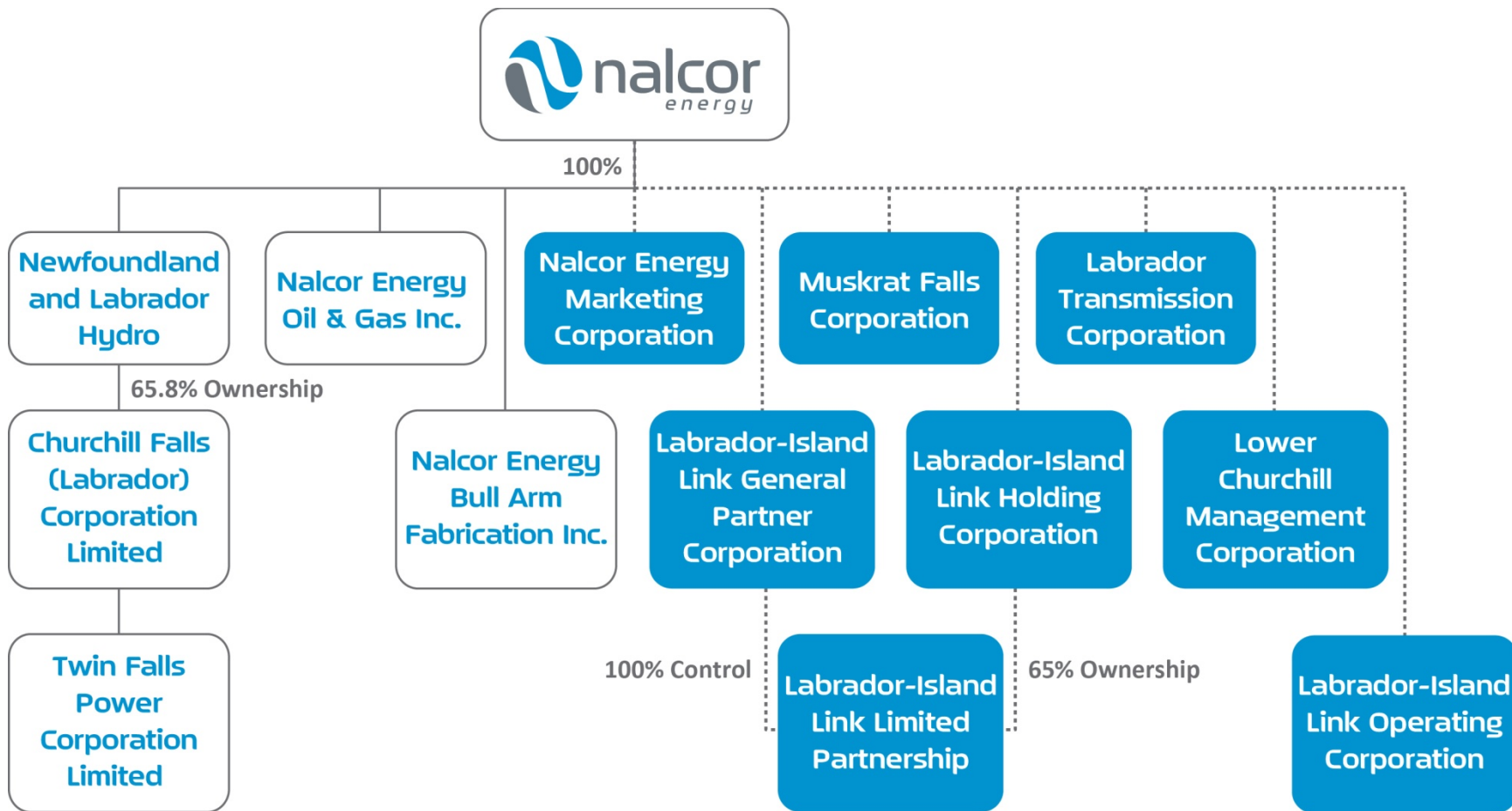


# Shared Support Services

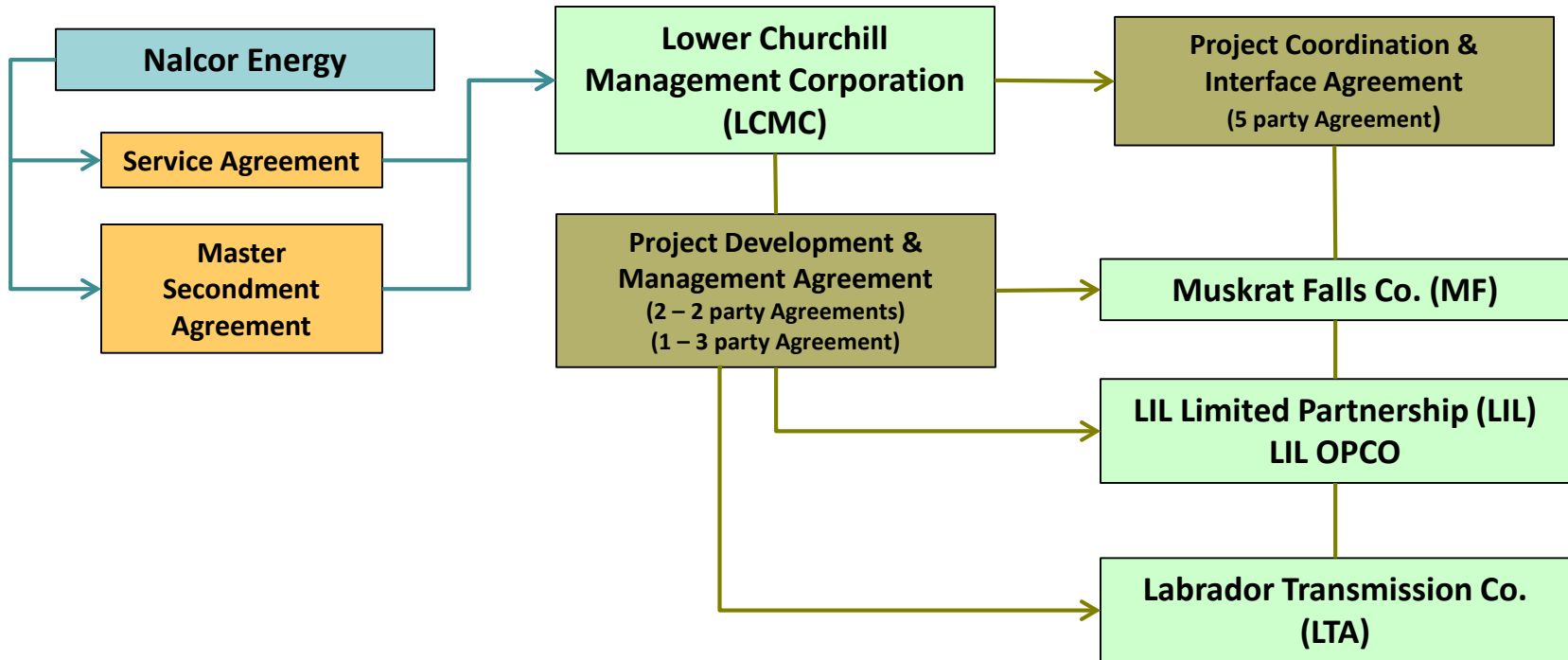
- Document Control
  - Quality Assurance
  - Supply Chain and Contracts
  - Project controls
    - Planning
    - Cost Control
    - Change Management
  - Finance
  - Environment
  - Safety
  - Human Resources
  - Labour Relations
  - IS/IT
  - Industrial Benefits
  - IBA
  - Stakeholder Management
  - Communications
-

# Overall Corporate Structure & Relationships

# Nalcor Corporate Structure



# Company Relationships



# Company Relationships - Key Considerations

- Project Financing – "ring-fence" project debt from Nalcor and core assets
- Federal Lending Guarantee Agreement requires separate MF, LTA and LIL borrowing entities
- Limitation of liability – limit liability back to Nalcor, and NL relating to financing/commercial arrangements, construction contracts, etc.
- Separate ownership in MF/LTA from LIL – separate entities required as Emera has interest in LIL, but not MF/LTA
- Protect tax-exempt status of Nalcor in LIL – Emera being taxable resulted in adoption of the partnership structure for LIL
- Ensure LIL transmission rights are held in separate entity from that owned in part by Emera - 100% transmission rights to be owned by Nalcor in separate entity from the LIL Partnership (i.e. LIL Opco)
- Satisfy US/FERC regulatory requirements



# LCP Project Management Company

## Lower Churchill Management Corporation (“LCMC”)

- Established in November 2013, it will carry out the project management (“PM”) functions for the Project during the development phase. The project manager’s role will include providing planning, engineering and design management, construction management, risk management, cost control, finance and accounting, procurement, supply chain management and other services to Muskrat, Lab Transco and the LIL LP
  
- **Two primary advantages of creating LCMC and having it perform the project management function as opposed to Nalcor:**
  - a) **Having a separate entity perform this function ensures Nalcor and NL isolated from direct liability associated with the PM function**
  
  - b) **A separate PM subsidiary simplifies the security required by lenders (guarantor) and avoids having Nalcor involved in the financing. As part of their security, lenders will need to be able to step into key contracts in the event of a default, including the PM contract. In the event Nalcor was to continue with the PM function it’s obligations would have to be pledged to lenders.**

# Project Management Agreements

## 1. Project Development and Management Agreement for the MF Plant

Parties: LCMC and Muskrat

Summary: This is the agreement pursuant to which Muskrat retains the services of LCMC to provide project development and management services in connection with the development of the Muskrat Falls Project

## 2. Project Development and Management Agreement for the LTA

Parties: LCMC and Lab Transco

Summary: This is the agreement pursuant to which Lab Transco retains the services of LCMC to provide project development and management services in connection with the development of the LTA

## 3. Amended and Restated Project Development and Management Agreement for the LIL

Parties: LCMC, LIL LP and LIL Opco

Summary: This is the agreement pursuant to which LIL LP and LIL Opco retain the services of LCMC to provide project development and management services in connection with the development of the LIL Project. LCMC will, during the Construction Period, act in accordance with the instructions of LIL LP, and during the Operating Period, act in accordance with the instructions of LIL Opco

# Project Management Agreements

## 4. Project Interface and Coordination Agreement

Parties: LIL LP, LIL Opco, Muskrat, Lab Transco and LCMC

Summary: This Agreement and the Project Development and Management Agreements are intended to be complementary to each other and operate in a coordinated manner such that LCMC may provide its services on a coordinated integrated basis so that, upon completion of the Muskrat Falls Project, Labrador Transmission Assets Project and Labrador-Island Link Project they can and will be operated together as if they were developed together as a single project to deliver a seamless, fully integrated system that in Labrador is fully and seamlessly interconnected and integrated with the existing Churchill Falls Hydroelectric Plant, and that at Soldier's Pond in Newfoundland is fully and seamlessly interconnected and integrated with NLH's transmission and distribution system.

# Go Forward Structure – For Discussion



# Back Up

# LCP Companies

## **Muskrat Falls Corporation (“Muskrat”)**

- Established in November 2013, it holds the water power and land rights necessary for the construction of the power generation facility at MF and will construct, own and operate these assets
- The entity holding financing for the MF plant

## **Labrador Transmission Corporation (“Lab Transco”)**

- Established in November 2013, it will construct, own and operate the transmission link between the MF plant and the existing facility at Churchill Falls. Lab Transco will be considered the “transmission owner” for purposes of offering transmission service over the LTA
- The entity holding financing for the LTA

## **Labrador-Island Link Limited Partnership (LILCo.)**

- Established in July 2012, it is a partnership between Nalcor Energy and Emera Inc.
- Owns the Labrador-Island Link; a transmission system linking Muskrat Falls to Soldier's Pond on the Avalon Peninsula
- The entity holding financing for the Labrador-Island Link

# LCP Companies

## Labrador-Island Link Operating Corporation (“LIL Opco”)

- Established in November 2013, it will receive operating control over 100% of the transmission capacity on the LIL from the LIL LP. LIL Opco will be considered the “transmission owner” for purposes of offering transmission service over the LIL
- LIL Opco has also provided a guarantee of the debt financing related obligations of the LIL LP, as payments from NLH relating to use of the LIL will flow through LIL Opco as part of the commercial agreement structure.

## Labrador-Island General Partner Corporation (“LIL GP”)

- Established in July 2012, it is the general partner of the LIL Limited Partnership (“LIL LP”) and is 100% owned by Nalcor. As general partner, LIL GP has the full power to manage and control the LIL LP (which is the entity through which debt will be borrowed to finance construction of the LIL)

## Labrador-Island Link Holding Corporation (“LIL Holdco”)

- Established in July 2012, it holds Nalcor’s limited partnership interest in the LIL. This is the entity that will be used to fund Nalcor equity contributions for LIL development and receive distributions during operations