

Date : 3/18/2016 8:25:37 PM

From : "Coady, Siobhan"

To : "Murphy, Tim" , "Parsons, Kelvin" , "Mullaley, Julia"

Subject : Fw: Updated materials - EY Report

Attachment : Communications Plan - EY Interim Report - March 21.doc;MS - Premier - EY Interim Report- March 21.doc;NR - EY Interim Report - March 21.doc;QAs - EY Interim Report - March 21.doc;

Good evening all -

These are the updated communication materials from today. I have not done a final review and therefore they have not been sent to Communications Branch or Nancy as yet. Will wait until we decide direction tomorrow.

Thought you may want to have in case we decide to move forward.

Siobhan

Sent from my BlackBerry 10 smartphone on the Bell network.

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**From:** Quinton, Diana <DianaQuinton@gov.nl.ca>

**Sent:** Friday, March 18, 2016 7:45 PM

**To:** Coady, Siobhan

**Subject:** Updated materials - EY Report

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Minister Coady:

Here are updated communications materials for your review:

- (1) Communications plan (includes key messages and possible tweets)
- (2) Statement for the House
- (3) News release
- (4) Questions and Answers

Thanks,

Diana

Diana Quinton

Director of Communications

Natural Resources

Government of Newfoundland and Labrador

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## COMMUNICATIONS PLAN

**Title:** Release of EY's report and the Oversight Committee's report on the Muskrat Falls Project

**Issue:** Government intends to release the report from EY which focuses on cost, schedule and associated risks for the Muskrat Falls Project. Government will also release the Muskrat Falls Oversight Committee's report to the end of December 2015.

### COMMUNICATIONS ANALYSIS

#### Public Environment

On December 21, 2015, government announced that it was undertaking an independent review of cost, schedule, and associated risks of the Muskrat Falls Project.

Critics of the project argued that government had not gone far enough – that they should also review the engineering aspects of the project, such as North Spur.

Critics also suggested that the new government was being influenced by Nalcor in its actions.

Des Sullivan, blogger and member of 2041 Energy Group, was particularly vocal and spoke with CBC and VOXM on the days following the announcement, saying the review was flawed.

In his blog, he said the EY review is about “comfort for bond rating agencies, given the amount of borrowing to be conducted. About opening the tap on maximum debt....”

He also said that EY was the wrong firm to perform the review and that the review doesn't go far enough.

He said that, “Politically, Liberals will pay dearly. Muskrat Falls will be allowed to compete for funding with hospitals, schools, and roads without public having any idea of final cost of the project or whether a thorough review would have increased management and other efficiencies.”

Sir Robert Bond Papers commented that, “the Liberals are focused on the tactical execution of the project. To be sure, there are problems at that level. However, the most significant ones are strategic and EY will not examine them. The blog also noted, “You cannot argue, as Ball and the Liberals have done, that the project is badly managed and yet at the same time endorse the people responsible for managing the project.”

The Official Opposition questioned why the government wanted to spend \$1 million for yet another report?

A Telegram editorial said, “Ask yourself one question: do we really want another review of the Muskrat Falls project — especially if, as Premier Dwight Ball announced Monday, it won’t change the outcome?”

### **Strategic Considerations**

The release of EY’s report and the Oversight Committee’s report on the Muskrat Falls Project is expected to generate significant interest among local and national media, opposition parties, critics of the project, the Government of Canada, banks, bond rating agencies, potential investors in GNL bonds, public and private sector unions, and residents of Newfoundland.

Questions include:

- Will you change the project lead?
- Do you still have confidence in the project team?
- Given the information released today, will you stop the project?
- What action will you take as a result of these findings?
- What is the new cost and schedule for the Muskrat Falls Project?

The House of Assembly is open at this time and it is expected that the Opposition party as well as the Third Party, will question the Premier and Minister of Natural Resources on the report:

- Why spend a \$1 million on this report when the Oversight report had similar conclusions?
- This is another plan...what action are you taking?

Also, the Premier will be challenged on the fact that he has said publically that all people in the province will need to sacrifice (not just the public service). The question will likely be, “Does Nalcor get a free pass?”

While a new cost estimate will not be released at this time, it is expected that media and others will speculate on the expected cost of the project, given that the project is only half completed.

It will be essential for government to demonstrate that action is being taken and that the project is being managed responsibly. Reassurance must be given to the people of the province as well as to the Government of Canada, banks and bond rating agencies.

Public and private sector unions are expected to criticize the need to provide Nalcor with significantly more cash for the Muskrat Falls Project while expecting their members to sacrifice. This is also expected to be the argument raised by residents and various special interest groups who are concerned about cutbacks as a result of the upcoming budget.

In addition to the release of the EY report, public dialogue regarding the Muskrat Falls Project is expected to peak at the following times:

- Nalcor's AGM (Thursday, March 24);
- Announcement of Budget 2016 (which will outline Nalcor's equity requirements and raise the question: Will equity requirements increase again once Nalcor's new forecast is completed?); and
- Post budget: Release of Nalcor's new forecast for the Muskrat Falls Project with EY's assessment.

Astaldi released their latest financial statements on March 9 which is showing net financial debt. Also, Astaldi reported that they are talking with the client with the aim of rescheduling the remaining works and recalculating the project value. Although we have had no inquiries about this to date, media and bloggers may ask: What impact does this have on the contract with Nalcor and the Muskrat Falls Project? Will it result in Astaldi getting more money? How much? Did it make sense to pay Astaldi for hours worked rather than milestones achieved?

## **Target Audiences**

### **Internal**

- Premier's Office
- Executive Council
- Natural Resources
- MHAs

### **External**

- Government of Canada
- Banks, bond rating agencies and potential investors
- Local and national media
- Official Opposition
- Third Party
- Public and private sector unions
- Residents of Newfoundland and Labrador

## **Communications Objectives**

- To proactively take control of the narrative – defining it so others don't.
- To demonstrate that government is taking action so that moving forward the Muskrat Falls Project will be responsibly managed.
- To manage balanced reporting in local and national media; and balanced comments on social media and in blogs.

## **COMMUNICATIONS STRATEGY**

### **Overall Approach**

Prior to informing the public:

- NRCan will be informed (this has now been done)
- Consideration to be given to giving banks and rating agencies a heads up (by the Department of Finance)
- Key messages will be shared with Nalcor, NRCan and government members.

A news release to provide an update on EY's report and the Oversight Committee's report will be distributed to media at 1:00 p.m. on the chosen release day.

The Premier will provide a Statement in the House of Assembly regarding the release of the reports.

The Premier and the Minister of Natural Resources will be available to media after Question Period to speak about the reports. The availability will take place in front of the House of Assembly.

National media may also be interested in interviews. This will be arranged as requested.

In addition, tweets will be sent out through government's twitter account and we will be ready to respond to tweets from residents and others. We will monitor media and respond to points raised as necessary.

The following are key messages. Separate files have been created for the news release, ministerial statement and questions and answers.

### **Key Messages**

- Today, government is releasing the independent report from EY to the people of the province – the shareholders of the Muskrat Falls Project.
- The Muskrat Falls Oversight Committee has also released its report to the end of December 2015.
- The EY report is significant because it confirmed that the September 2015 forecast for the Muskrat Falls Project is not reasonable.
- We now know that it will take longer and cost more to complete the Muskrat Falls Project than what was forecast in September 2015.
- This concerns us as a new government and inheritors of this project.

- The Muskrat Falls Project is now being reforecast for cost and schedule. EY will assess the reasonableness of this revised forecast.
- We want to reassure the people of this province that we will be diligent in our actions and will make the right decisions on behalf of the people of this province.
- We certainly recognize and appreciate the hard work of the Newfoundland and Labrador residents and companies working on the project.
- EY has made a number of recommendations in their report and it is this government's full intention to action all of them including strengthening project governance and expanding oversight. Other recommendations include the following:
  - the Project should revise its planning and forecasting processes to explicitly include the regular reporting of a fully risk-adjusted final forecast of cost and schedule;
  - the Project contingency should make appropriate allowances for all risks, including strategic, at a confidence level reflecting stakeholders' required cost certainty;
  - the sufficiency of the Project contingency should be reviewed quarterly to assess whether it appropriately covers all risks, taking account of the effectiveness of mitigation plans and the likelihood of risks crystallizing; and
  - there should be separation of the Project contingency into an amount to be managed by the Project team and an amount to be managed at a higher level of governance.

## Tweets

- @GovNL released report from EY today on the Muskrat Falls Project (add link)
- @GovNL opening books on Muskrat Falls, releases EY report today (add link)
- EY has confirmed that the September 2015 forecast for the Muskrat Falls Project is not reasonable. View full report at: (need link)
- The Muskrat Falls Project is now being reforecast for cost and schedule. EY will assess the reasonableness of this revised forecast.
- EY has made a number of recommendations; @GovNL will action all of them. (add link)
- @GovNL recognizes and appreciates the hard work of NL residents and companies working on the Muskrat Falls Project.
- The Muskrat Falls Oversight Committee has also released its report to the end of December 2015. (add link)

**Statement by  
The Honourable Dwight Ball  
Premier of Newfoundland and Labrador  
March 21, 2016**

**EY's Independent Report on Muskrat Falls Released**

I rise in this Honourable House today to speak on the Muskrat Falls Project and the independent report by EY, released today and available on government's website, which focused on cost, schedule and associated risks for the project.

We said in December we would open the books on the Muskrat Falls Project; we felt it was important to release this report to the people of the province as soon as it was available. As shareholders, we are all entitled to up-to-date and accurate information on the Muskrat Falls Project.

The report is significant as EY has confirmed that the September 2015 forecast for the Muskrat Falls Project is not reasonable.

We now know it will take longer and cost more to complete the Muskrat Falls Project than was forecast in September. This concerns us as a new government and inheritors of this project.

EY has made a number of recommendations in their report and it is this government's full intention to action all of them including strengthening project governance and expanding oversight.

The Muskrat Falls Project is now being reforecast for cost and schedule. **EY will assess the reasonableness of this revised forecast.**

As Premier, I want to reassure the people of this province that we will be diligent in our actions and will make the right decisions on behalf of the people of this province.

We certainly recognize and appreciate the hard work of the Newfoundland and Labrador residents and companies working on the project. Thank you.

**Natural Resources**

March 21, 2016

**Making Responsible Decisions****Government Releases EY's Independent Report on the Muskrat Falls Project**

Today, the Honourable Dwight Ball, Premier of Newfoundland and Labrador, and the Honourable Siobhan Coady, Minister of Natural Resources, released the independent report from Ernst & Young LLP (EY), which focused on cost, schedule and associated risks for the Muskrat Falls Project. Also released today was the Muskrat Falls Oversight Committee's report to the end of December 2015.

EY has confirmed that the September 2015 forecast for the Muskrat Falls Project is not reasonable. The Muskrat Falls Project is now being reforecast for cost and schedule. **EY will assess the reasonableness of this revised forecast.**

**"The EY report is significant as it confirmed that the September 2015 forecast for the Muskrat Falls Project is not reasonable. We have learned that it will take longer and cost more to complete the Muskrat Falls Project than was forecast in September 2015. This concerns us as a new government and inheritors of this project. I want to reassure the people of this province that we will be diligent in our actions and will make the right decisions on behalf of the people of this province."**

*- The Honourable Dwight Ball, Premier of Newfoundland and Labrador*

The EY review concluded that the September 2015 forecast is not reasonable for the following principal reasons:

- the generation contract for civil construction is significantly behind schedule in the Powerhouse and Intake areas and consequences of this delay are expected to have material impacts on cost and schedule that are not reflected in the September 2015 forecast;
- there is a risk of a multiple month delay to complete the HVdc transmission line contract;
- the contingency amount to cover any cost increases is low for the current stage of completion of the project; and
- Project governance and reporting arrangements to date have not been effective in giving stakeholder confidence on forecast project cost and schedule.

**"EY has made a number of recommendations in their report and it is this government's full intention to adopt them all including strengthening project governance and expanding oversight. The Muskrat Falls Project is now being reforecast for cost and schedule. **EY will assess the reasonableness of this revised forecast.**"**

*- The Honourable Siobhan Coady, Minister of Natural Resources*

Recommendations from the EY report are included in the backgrounder below.

**QUICK FACTS:**

- Today, the independent review from Ernst & Young LLP (EY) which focused on cost, schedule and associated risks for the Muskrat Falls Project was released and is available at (INSERT LINK).
- Also released today was the Muskrat Falls Oversight Committee's report to the end of December 2015 which is available at (INSERT LINK).
- EY has confirmed that the September 2015 forecast for the Muskrat Falls Project is not reasonable. The Muskrat Falls Project is now being reforecast for cost and schedule. EY will assess the reasonableness of this revised forecast.
- EY made a number of recommendations in their report. Government intends to action them all.
- The Muskrat Falls Project is a significant economic generator in the construction phase. There were 4,552 Newfoundland and Labrador residents working on the project at peak in 2015 and \$1.14 billion in wages paid to Newfoundland and Labrador workers since the start of project construction. In addition, \$1.04 billion has been spent with Newfoundland and Labrador-based businesses since the start of construction.

- 30 -

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**BACKGROUNDER**  
**Recommendations from the EY report**

- The project should revise its planning and forecasting processes to explicitly include the regular reporting of a fully risk-adjusted final forecast of cost and schedule;
- The project contingency should make appropriate allowances for all risks, including strategic, at a confidence level reflecting stakeholders' required cost certainty. EY recommends that consideration be given to use of a conservative P80 confidence level for setting project contingency, based on a thorough Quantitative Risk Assessment;
- The sufficiency of the project contingency should be reviewed quarterly to assess whether it appropriately covers all risks, taking account of the effectiveness of mitigation plans and the likelihood of risks crystallizing; and

- There should be separation of the project contingency into an amount to be managed by the project team and an amount to be managed at a higher level of governance.

EY has also observed a need to strengthen project governance and reporting to provide more effective oversight and constructive challenge to project performance and execution, key decisions and forecasting.

## EY Report Update Questions and Answers

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### **A. GOVERNMENT'S REACTION TO EY REPORT**

#### **A1. Do you still support Ed Martin or will he be fired?**

This is not about personalities. We have to deal with this properly to ensure we have effective project governance and stronger oversight.

#### **A2. Do you still have confidence in the project team?**

We certainly have questioned whether we have the right team in place to responsibly manage the project. We have to deal with this properly to ensure we have effective project governance and stronger oversight.

#### **A3. Are you going to shut down the project?**

It is virtually impossible to shut down the project. There are over \$6 billion in committed costs. \$5 billion dollars has been borrowed under the Federal Loan Guarantee – we are committed to paying this amount with interest. Commitments have been made to Emera and Nova Scotia for which the Province and Nalcor are liable. And there is still the requirement for energy.

#### **A4. Ineffective project governance was called out in the report... what do you plan to do about it?**

Government is committed to greater transparency and stronger oversight with respect to this project. We intend to take EY's project governance recommendations very seriously and will be acting on each and every one of them.

#### **A5. What is your plan to appoint new board members? Will you wait for IAC?**

As this is an urgently required, we will act precisely and quickly to expand and strengthen the Board and improve oversight. IAC will take some time now to be established through the House of Assembly. To put it in simple context, this project (based on the current budget and timeline) is costing us \$6M per day. We can't wait.

**A6. What will government do to strengthen project governance to provide more effective oversight and constructive challenge to key decisions and planning?**

EY has outlined recommendations in their report which we have accepted.

We will strengthen government's oversight role and expand and enhance the Board of Directors so they can better question management to ensure they are making the right decisions.

**A7. You paid close to a million dollars for the EY report.... where is the value?**

This is a multi-billion dollar major capital project. This Government believes that the province will see a significant return on this investment in major capital projects expertise. We will gain transparency and assurance and achieve a better understanding of the current status of and forecast for the project.

In line with our commitment for openness and transparency, this report provides an independent and objective view of the cost, schedule and risks in relation to the project.

We have had access to world class resources, including David Leather who was CFO of the London Olympics, which came in on cost and schedule.

EY made a series of recommendations that are valuable, and we will implement them all.

**A8. Doesn't government find the risks and issues highlighted in the EY report very concerning?**

It is difficult to learn that it will take longer and cost more to complete the Muskrat Falls Project than what was forecast in September 2015. This concerns us as a new government and inheritors of this project.

While we can't go back in time, we want to avoid further delays and cost increases. We will take any and all measures to ensure the project is completed with the new reforecasted budget.

**A9. What steps will government now take in light of the information revealed by the oversight committee and EY?**

It was important for government to release this report to share as much information as possible with the people of the province as it becomes known to government.

EY made a number of recommendations in their report – we intend to action them all, including strengthening project governance to provide more effective oversight.

Nalcor is working on an updated schedule as well as associated costs which are expected to increase. **EY will assess the reasonableness of this revised forecast.**

**A10. Any implications on the Federal Loan Guarantee?**

Five billion dollars has been borrowed under a Federal Loan Guarantee. We are committed to paying this amount with interest. As outlined in legal agreements, a stop or delay in the project would trigger default and the Government of Canada can take over the project.

**A11. Are there bond rating implications?**

This government is working very hard to protect our credit ratings in the face of a tremendously difficult fiscal situation. Bond rating agencies and major banks are watching this province closely and we must take action, such as prudently managing the Muskrat Falls Project. Rating agencies suggest the current noise and uncertainty with respect to completion and revised costs of Muskrat Falls is credit rating negative. However, once completed and if GNL follows through on rate increases to provide for stable revenue stream to repay the debt and provide promised 8 per cent rate of return on GNL equity investment, it will be credit rating positive.

**A12. What are the implications on the NL budget?**

Any expenses incurred by departments, agencies, boards and commissions, including the equity investment in Muskrat Falls and offshore petroleum projects, are having a direct impact on the NL budget right now. That is why we have felt it is prudent to review the project's costs, schedule and associated risks at this time.

Short term issue is the significant cash flow increase required (equity investment) in 2016/17 at a time when the province's revenues have been significantly impacted by falling commodity prices and oil production issues. Prior to 2014, the Province could fund its equity using surplus cash. Now it has to borrow and the interest expense on these borrowings adds to its annual deficit.

The equity investment is treated as a financial asset and as long as there is no impairment in the value of that asset it does not directly impact the deficit or net debt. The asset had potential to return significant dividends to the province, especially if there is a reliable market for excess power.

**A13. Is Nalcor not being asked to sacrifice like all people of NL are being asked to do?**

Yes, all agencies, boards and commissions have been asked to find savings.

**A14. Will you have the Nalcor reforecast and EY validation of same before this year's budget? If not, how will you be sure you have sufficient funding built into the multi-year fiscal framework? Should you delay the budget until you know the real cost of the Muskrat Falls Project?**

While important, residents and others have demanded action on significant deficit. Banks and rating agencies expect a budget - we won't delay the budget process.

**A15. The EY report points out that Reforecast #1 was completed 22 months after sanction, reforecast #2 was completed 14 months after #1 and now a third reforecast is being done only 6 months after #3. How many more reforecasts will we have given the project is only half done? How can the public have any confidence the next forecast will be correct?**

While we can't go back in time, we want to avoid further delays and cost increases. We will take any and all measures to ensure the project is completed with the new reforecasted budget.

**A16. Given such a short timeframe between reforecast #2 and #3, do you think Nalcor and the current official Opposition knew in September that the \$7.653 billion number was too low?**

I can't speculate on the thought process of a previous administration. While we were in Opposition, we suspected this.

**A17. Did the Oversight Committee know in September that there would be a new schedule for the project?**

Yes, this was indicated in the last Oversight Committee report. At the time, the project schedule was not updated but was described as under review.

**A18. In December in response to a question about whether you had confidence in Ed Martin, you said you had no reason not to be confident. Do you now have reason not to be confident?**

We certainly have questioned whether we have the right team in place to responsibly manage the project. This review, though, is about process – ensuring we have the right systems in place to responsibly manage the project. EY has much experience with large scale projects and we are accepting their recommendations with regards to improving processes.

**A19. As part of EY's final report will there also be an update provided on what the new forecast will mean for ratepayers? How much more will the reforecast mean to residents on their power bills?**

We recognize that this information may worry the general public and how this will impact their household electricity rates, but at this time, it is too early to speculate.

## **B. EY'S REPORT**

### **B1. Government announced that EY would be undertaking a review on December 21. Why didn't they start their work until January 14?**

EY began work as soon as their contract was signed and the team was available.

### **B2. EY has not developed its own cost, schedule and risk forecast but instead assessed the reasonableness of that prepared by Nalcor. How is this report independent if EY is taking Nalcor's word on information provided?**

It is normal in this type of review that the focus be on the analysis of the data and how it is used to inform schedule and costs forecasts. The quality of the data from the project team was not the issue or the question posed to EY. EY is a global leader in this type of work – they are experienced in major capital project review.

### **B3. Why isn't government seeking independent verification of information?**

Government did seek independent verification. That is why we engaged the services of EY. EY is a global leader in this type of work – they are experienced in major capital project review.

We have had access to world class resources, including David Leather who was CFO of the London Olympics, which came in on cost and schedule.

Verification of the information is not the issue. The issue is how the information is used to provide the best forecasts possible for the schedule and cost of the project.

### **B4. The oversight committee seems to have come to many of the same conclusions EY has. Aren't you duplicating efforts?**

The oversight committee makes its observations and conclusions based on information it receives directly from Nalcor as well as from other external expertise.

EY was engaged as an independent advisor to the oversight committee to provide expertise on mega-project execution where the capacity for this type of analysis does not exist within government. This is not a duplicated effort but rather the external consultant is an important support tool to the committee. They provided us with "a cold eyes review".

It is important that we continue with prudent oversight of the Muskrat Falls project during the construction phase, and that we obtain an independent look at the project's costs, schedule and associated risks beyond government's own analysis on behalf of the people of the province.

This type of review is not uncommon for large scale projects, ranging from power generation projects to multi-national mining projects to building infrastructure for large sports complexes such as the Olympic Games.

**B5. Did you go through the public tendering process to hire this consultant?**

EY was successful in an initial RFP process where they were selected as the independent advisor to the Muskrat Falls Project Oversight Committee. EY continued their engagement with the Oversight Committee to complete this new review.

**B6. What did EY discover during the review?**

The EY review concluded that the September 2015 forecast is not reasonable for the following principal reasons:

- the generation contract for civil construction is significantly behind schedule in the Powerhouse and Intake areas and consequences of this delay are expected to have material impacts on cost and schedule that are not reflected in the September 2015 forecast;
- there is a risk of a multiple month delay to complete the HVdc transmission line contract;
- the contingency amount to cover any cost increases is low for the current stage of completion of the project; and
- Project governance and reporting arrangements to date have not been effective in giving stakeholder confidence on forecast project cost and schedule.

**B7. Why has EY not quantified differences in cost and schedule in its report?**

EY was not specifically asked to provide a new cost and schedule forecast – it is outside the scope of its mandate. Nalcor is responsible for the delivery of the project and now we are strengthening our independent oversight of how it completes its forecasting so that we can have an appropriate level of assurance and transparency going forward.

**C. PROJECT SPECIFIC QUESTIONS**

**C1. The EY report states that Nalcor is engaged in commercial discussions with the Muskrat Falls Generation civil works contractor. What contractor are you referring to and what are the commercial discussions about?**

Discussions are with Astaldi who is undertaking construction of the intake/powerhouse. As we know, there are delays in the generation contract. Nalcor is working closely with Astaldi to avoid further delays in the construction of the intake/powerhouse. Cost and schedule is always top of mind to ensure responsible management and due diligence for the project.

**C2. EY said that the integrated cover system was not successfully delivered which significantly impacted the ability to place concrete during the winter months. I thought it had no impact on the project?**

The project management team will answer on project specifics.

**Answer from Nalcor:** The integrated cover system (ICS) was always meant to be a temporary structure. It was an element of the contractor's execution plan which would allow year-round concrete placement in a temperature controlled environment, with workers shielded from the weather. The ICS was also designed to have overhead cranes and a concrete distribution system that would facilitate the construction effort. The ICS was not fully constructed and year-round concrete placement in the powerhouse was not realized. As a result, the contractor's execution plan had to be changed, contributing to the schedule delays they are experiencing.

**C3. How much did the dome cost us? Why did Nalcor let Astaldi build it when it was useless? Our first cost update included costs for the dome and it didn't serve any purpose.**

The project management team will answer on project specifics.

**Answer from Nalcor:** The integrated cover system (ICS) was always meant to be a temporary structure. It was an element of the contractor's execution plan which would allow year-round concrete placement in a temperature controlled environment, with workers shielded from the weather. This cost was included as part of the contractor's bid.

**C4. Approximately one third of the concrete has been placed compared to the contractor receiving two thirds of the committed contract value as of December 2015. This will directly impact milestones and costs in excess of the contingency level. (I thought this was fixed price? So what happens when the committed contract value is reached and there is still work outstanding?)**

The cost of the contract including the cost of labour and material is capped.

**C5. Where are things with the North Spur?**

North Spur engineering was completed by SNC Lavalin and reviewed and validated by Hatch Engineering. The Independent Engineer has also reviewed. We also understand from the Independent Project Management Team that there were no geotechnical issues found.

**Answer from Nalcor:** As outlined in the oversight report, construction progressed on the North Spur Stabilization Works (4.4 per cent ahead of schedule as of December 2015) and excavation activities on the upstream and downstream embankment continued until early December, at which time work for the 2015 season shut down. Nalcor advises that activities are scheduled to resume in spring 2016.

**C6. Is Valard also in trouble?**

As indicated in EY's report, there is a slight delay in schedule. We understand from Nalcor that they expect the gap to close this year.

**Answer from Nalcor:** There have been a number of performance challenges faced by the contractor which continue to pressure HVdc construction schedule, such as above seasonal temperatures and unfavorable weather conditions for construction again this winter. LCP will continue to assess the impact on schedule and concurs delays are possible without effective mitigation strategies. As part of its ongoing management of this work, the LCP team will continue to examine options with its construction contractor for minimizing schedule slippage. These include the contractor mobilizing additional resources – including those planned to move from the LTA to the LIL when work on the LTA completes.

**C7. Was the move from SNC as EPCM to integrated team a mistake?**

We cannot comment on decisions made previously, However, I can say that based on the EY report we need to enhance project governance and oversight.

**Answer from Nalcor:** As noted by the IE in its Nov 2013 report, the Integrated Project Team model is considered a key enabler to project success: "The organizational model shift is viewed as a key enabler of team effectiveness, which is considered imperative for delivery of this megaproject."

They also noted: Qualifications of Participants: "In our opinion, and based on past experience, the Integrated Project Team consisting of SNC-L (the borrower's Engineer) and Nalcor (the borrower) are qualified to design, contract, manage, commission, operate and maintain the three projects currently under design and construction for the LCP."

**C8. If these risks were known at the time of the September baseline, why weren't they accounted for and reported at that time?**

As EY's report states, Nalcor through the course of the project has not fully reflected these risks in the cost and schedule baselines. With incorporation of the recommendations from EY's report, Nalcor will fully assess and account for all appropriate risks so that the revised baseline and forecast is robust.

**C9. How much will costs increase?**

Nalcor is currently undertaking a risk assessment to evaluate the impact of all project risks and will be preparing a revised forecast including a cost update.

**C10. Doesn't the report confirm that the Muskrat Falls Project is out of control – only 40 to 50 per cent complete. What does this mean for costs?**

Nalcor is currently undertaking a risk assessment to evaluate the impact of all project risks and will use the results of this process to prepare a revised forecast.

**C11. Don't the following deficiencies highlighted by EY report point to mismanagement including:**

- **Cost control**
- **Paying for hours worked not on achievement of milestones**
- **No reserves for strategic risks**

EY observed a need to strengthen project governance to provide more effective oversight to make decisions and planning. Government will be adopting all recommendations outlined in their review.

**C12. The EY report says the project forecast is:**

- **not reasonable**
- **significant risks exist to cost and schedule**
- **risks aren't factored into released numbers**

**How much is it going to be over budget? When will it be completed?**

We don't yet know yet. The Muskrat Falls Project is now being reforecast for cost and schedule. **EY will assess the reasonableness of this revised forecast.**

**C13. The Report notes that the Muskrat Falls Generation contract is "significantly behind schedule". Can you quantify how far behind it is/ how much will this cost?**

We don't yet know yet. The Muskrat Falls Project is now being reforecast for cost and schedule. **EY will assess the reasonableness of this revised forecast.**

**C14. The report notes that the HVdc transmission line contract is facing a “multiple month delay”.**

- a. Can you quantify how far behind it is?**
- b. Why does this not have a cost implication?**

We don't yet know yet. The Muskrat Falls Project is now being reforecast for cost and schedule. **EY will assess the reasonableness of this revised forecast.**

**C15. Is this still the least cost option?**

The Muskrat Falls Project is now being reforecast for cost and schedule. **EY will assess the reasonableness of this revised forecast.**

**C16. What's going to happen with the methylmercury issue now that Nunatsiavut Government won't meet with Environment and Conservation?**

It is unfortunate that the NG has rejected the invitation for its experts to participate in this workshop. The intent of the workshop is to provide an opportunity to convey perspectives, receive input from **all** referring agencies, and to allow for open dialogue and the ability to ask questions.

Environment Canada, Fisheries and Oceans, Health Canada, Health and Community Services have accepted the invitation and the experts in the department's environmental assessment division look forward to this important discussion.

As regulator, the department is providing an opportunity to hear stakeholders' positions before making a decision on the proponent's human health risk assessment plan.

This is **not** a negotiation of science, this is a presentation of science.