

From: jamesmeaney@lowerchurchillproject.ca
To: [Derrick Sturge](mailto:Derrick.Sturge)
Subject: Meeting last night
Date: Thursday, March 17, 2016 8:44:48 AM

This is why today's release of the reports got canned late last night. They were in with Premier until almost 10:30. I spoke with Lance afterwards. Apparently Leather from EY was way out of line....

Sent from my iPhone

Begin forwarded message:

From: "Paul Harrington" <PHarrington@lowerchurchillproject.ca>
Date: March 16, 2016 at 11:36:21 PM NDT
To: "James Meaney" <JamesMeaney@lowerchurchillproject.ca>
Cc: "Steve Pellerin" <StevePellerin@lowerchurchillproject.ca>, "Brian Crawley" <BrianCrawley@lowerchurchillproject.ca>, "Lance Clarke" <LanceClarke@lowerchurchillproject.ca>, "Karen O'Neill" <KONeill@nlh.nl.ca>
Subject: Re: EY - CH-0007 EOA - Detailed Analysis and Path Foreward

Jim

We met with the Premier, minister Coady, Julia and the chief of staff group with EY (leather, Hickey, Calver)

The main discussion was the ASTALDI negotiation. However the Management response was then discussed and it went on a long time. Ed was clear that given the nature and tone of the EY report he was obliged to go on record and rebut the issues that Nalcor disagreed with. The Premier understood that position but was not overly happy about the situation.

The big issue was the statements about governance and how that conclusion could possibly have been reached with no direct contact with Board members, IE Canada etc. EY really had a flimsy response and when we added the feedback from Canada and the IE it became obvious that neither the EY report or the OC report could be released without changes. So it will now be Monday for that. In fact Leather made a comment about how in his opinion the IE was not providing good governance. He based that opinion on his disagreement on the protocol that we had with IE and Canada that cost increases were only formally reported when we had firm contracts or firm numbers to deal with,

Ed was clear and direct with Leather that Nalcor had to respond in such a manner because of concerns of Board member integrity, analysts and financiers looking outside in.

Quite frankly I saw the Premier looking hard at Leather during his attempts at justifying the report and the statements in it and I believe that Leathers stature was reduced in his eyes. Ed was direct, respectful and totally professional and laid out the rationale for the management response, which was kind of understood by the minister but it was clear that there was a distinct gap between opinions of EY and Nalcor that would be problematic

So positive points were

1 getting back to the negotiating table with ASTALDI was agreed, however the strategy is still to be discussed

2 the premier confirmed that Ed was the lead negotiator and made the decisions but listened to input from EY amongst other expert opinion

3 Lance would send a letter to ASTALDI to re engage and would seek input from EY

4 the EY and OC reports would be released Monday and need some work using the Management response as a guide.

5 the management response may need some work also and Ed was open to try and help avoid the appearance of misalignment between EY and Nalcor.

Regards Paul

Sent from my iPad

On Mar 16, 2016, at 9:38 PM, James Meaney
<JamesMeaney@lowerchurchillproject.ca> wrote:

Do we really want to be in the same room with these guys tomorrow AM when GNL releases their report and the media gong show ensues....might be tempted to tell them to go fark themselves :)

Sent from my iPhone

On Mar 16, 2016, at 3:50 PM, Steve Pellerin
<StevePellerin@lowerchurchillproject.ca> wrote:

On the agenda for tomorrow's session starting at 10AM, the main documents that EY plan to review with us include the following:

- . CH-0007 Execution Options Analysis (the spreadsheet)
- . CH-0007 Execution Options Analysis (the notes)

(See attached file: CH0007 Execution Options Analysis Rev 3_07-Mar-2016.pdf)(See attached file: Notes to CH0007 Execution Options Analysis Rev3_07-Mar-2016.pdf)

Much of this material has been covered in preceding sessions, such as:

- Claims Potential (Friday)
- Schedule (Friday)
- Finance (Tuesday)
- Cost Forecast (Wednesday)

So I anticipate this is a wrap-up session where they will probe at our conclusions - not a lot of document review. For example - the other documents from the data room that are on the agenda are path forward presentations (i.e., Nalcor to cabinet, Westney to cabinet, Westney to EY, the IPA, IE testimonial on approach [for our Option 2], and an overview of Decision Analysis which is generic - these are what they are and I do not expect we will go through the documents again).

Based on the conversation with EY this morning, I expect the following themes, if not direct line of inquiry:

How has our overall analysis of the CH-0007 execution options informed the QRA and/or the QRA inform the execution options analysis? I think they are seeking to assess whether the "left and right hand" are working together here;
What is the basis for some of our assumptions? For example, they probed a great deal in the LCMC cost to complete forecast on adjustment factors, where the 1.65 factor came from to adjust non-labour cost forecast, where did the 5% premium on direct hours for concrete

placement complexity come from and the compounding 2% on the 5%, etc. In many cases, Goulding was able to show these are rough extrapolations of 2015 actual cost data.

However, I suspect EY may be able to assert this was not rigorous (first principles or risk based).

What is the basis for the Astaldi forecast and what did Nalcor do with the Astaldi forecast to verify it's voracity? How did we come about to get this? Why are they more optimistic than Nalcor and Westney?

What have we included in the cost forecast as Astaldi overhead? There are contractual payments on overhead items than conclude at some point - but presumably they persist even after we finish paying for that and the issue was whether they endure for 5 months or the "12-to 18 months". (Scott O'Brien has this as a take away)

What is the size of the team on site, in relation to the \$2.361 million/month Project Carrying Costs? (This is an example of the deep dive they are probing to with cell entries in a spreadsheet.)

What is the status of the Revenue/Opportunity Cost input?

What is the status of the QRA?

In the end, as we have observed, they may be missing the objective in this exercise - which is to make a decision/support our decision on which approach to take with Astaldi at this stage - not to necessarily fix a price on that preferred approach.

So.....I offer this in advance of the session tomorrow - we can scrum at 9:45 AM and EY should be joining us at 10AM.

Stephen Pellerin

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<CH0007 Execution Options Analysis Rev 3_07-Mar-2016.pdf>

<Notes to CH0007 Execution Options Analysis Rev3_07-Mar-2016.pdf>