



Annual General Meeting March 26, 2015 Questions & Answers

In addition to the Question-and-Answer session from the AGM, a video-recording of which is posted on this site, a number of additional questions were submitted prior to or directly following the AGM.

Following are responses to those questions.

Preamble: The Minister of Natural Resources is reported in Hansard yesterday to have said the following:

MR. DALLEY: Mr. Speaker, the work that has been done previously has been highlighted as a part of trying to maintain control of costs and so on of these projects. We can cite many projects that are 50 per cent, 60 per cent, 70 per cent, or 80 per cent over budget. We are not seeing that with Muskrat Falls. Well over half of the engineering was done before the project started.

As I alluded to in big projects on the ground, trying to get things sorted out, making sure the right management and the right people are there, Mr. Speaker, that is always an ongoing process; but, with respect to the contracts, there are varying types of contracts with Muskrat Falls.

I will say in this House that it is my understanding that the Astaldi contract is a fixed price and they are responsible for the cost of this, Mr. Speaker. Just to be sure, I will check and if there is any difference, I will gladly let the member opposite know.

Questions:

Q1. My understanding is that unit costs and wage rates are fixed but that the time on task and volume of material used are not subject to a fixed price contract? Is the contract with Astaldi a fixed price contract?

A1. Yes. Material quantities in the contract are confirmed, so the relationship between unit cost and total pricing is fixed.

Q2. My understanding is that Astaldi's bid was significantly below the next highest bid. Is this true?

A2. Please refer to the answer to question #1 asked in March 2014 on page two of the following document on the Muskrat Falls Project website: <http://muskratfalls.nalcorenergy.com/wp-content/uploads/2014/05/Contracts-and-Procurement1.pdf>

Q3. Is it anticipated that Nalcor will deliver first power to Emera on schedule?

A3. Yes. Please refer to the long-term schedule section in the Provincial Government Oversight Committee's December 2014 Report, page 8:
http://www.gov.nl.ca/MFOversight/pdf/report_dec_2014.pdf

Q4. In an earlier interview Nalcor President indicated that there is a trade-off between a delay in the project and its overall cost. Is it anticipated that the "slippage" noted in recent reports will reduce cost?

A4. The point made by Nalcor President and CEO Ed Martin was in reference to the tradeoff between paying a premium to achieve a shorter construction schedule at the expense of outturn capital cost. This is both different and unrelated to managing contractor schedule performance on an already awarded contract.

As noted on page 8 of the 4th Quarter 2014 Oversight Committee report, "Nalcor has advised that although the timelines may change for the individual work within the project, the slippage on schedule progress to date does not impact the key Project milestones or the critical path for first power in December."

Q5. Are there penalties for Astaldi if they fail to maintain project schedule?

A5. This item is addressed in question 2 on page 31 of the Provincial Government Oversight Committee's Q3 2014 report. The report can be viewed at:
http://www.gov.nl.ca/MFOversight/pdf/report_sept_2014.pdf

Q6-8. Over the last year there has been a considerable devaluation of the Canadian dollar compared with international currencies, especially the American Dollar. Does Nalcor separate scope and Foreign Exchange variations when you compare your forecast cost with the original budget? Please advise what is the foreign exchange impact right now on the Muskrat Falls position compared with budget? Is it part of the \$6.99 Billion current cost estimate?

A6-8. Nalcor Energy tracks the impact of foreign exchange rate variations on the Muskrat Falls Project facilities capital costs. Based on current exchange rates and forecasts out to completion of the project, the impact of foreign exchange rate variations as compared to the budget assumption is less than 1% of total facilities capital costs. This is due to the fact that even though significant purchases are being made outside Canada, for many of these contracts (i) they were priced in Canadian dollars with the potential impact of foreign exchange rates being locked in at the date of execution or (ii) goods were delivered and payments made, in both instances at a time that preceded the Canadian dollar's considerable devaluation relative to other international currencies.

Q9. How is the cost of AFUDC impacted by foreign exchange variations?

A9. AFUDC is determined based on the overall capital cost of the project and thus is only impacted by foreign exchange to the extent that it causes a change in the final capital cost of the project.

Q10. The following questions relate to the recent Oversight Committee report and the lack of progress achieved in Q4 of last year.

- a. **When was the schedule which is reported in the oversight report baselined?**
- b. **Did the baseline schedule include the Integrated dome?**
- c. **Can you explain why you planned to achieve 6.2% of progress in Q4 according to your baseline schedule, but in reality only achieved 2.3% which is roughly 40% of what you planned?**

A10. As noted in the Q4 2014 Oversight Committee's report, the critical path to first power for December 2017 remains unchanged.

- a. The schedule in the Oversight Committee report is as of financial close (December 2013).
- b. The Integrated Cover System (ICS) is not a project deliverable.
- c. Nalcor provided an explanation of project variances on schedule to the Oversight Committee. This information is available in the Oversight Committee's Q4 2014 report and is available online at: <http://www.gov.nl.ca/MFOversight/>

Q11. When forecasting that the first power 2017 will not be impacted, are you maintaining completion dates for future activities which are consistent with your Baseline, or are you adjusting for the poor efficiency which seems to be happening on site?

A11. Managing contractor performance and project progress is an ongoing daily activity for the Project Management Team. The slippage in the work completed to date at the Muskrat Falls generation site is not a result of one single factor. Thousands of activities are ongoing and being managed every day as part of normal project management on a construction project of this magnitude. We expect these efforts to result in improved contractor performance.

Q12. On the question of delay and costs:

- a. **What is the impact on Nalcor should Astaldi continue to underperform?**
- b. **Have you considered terminating the contract?**
- c. **How many variations orders have Astaldi submitted, in terms of percentage of the original contract value?**

d. Are you considering awarding the North and South dams to Astaldi?

A12. Nalcor has provided information to the Oversight Committee addressing these questions. Please refer to the Q3 and Q4 2014 Oversight Committee reports that are available at:
<http://www.gov.nl.ca/MFOversight/>.

In response to point (d) of your question, Astaldi Canada Inc. is one of companies that have submitted a proposal for the construction of the North and South Dams. This scope of work has not been awarded at this time.

Q13. Has Nalcor undertaken an independent expert review of the schedule, by companies who are accustomed to large construction projects in harsh environments?

A13. Yes. Please refer to the reports of the Independent Engineer which are available on the Muskrat Falls Project website at: www.muskratfalls.nalcorenergy.com.

Q14. Is Nalcor actively planning for not having MF ready for the winter of 2018/2019 which seems very likely based on the progress in the past two years since the project was sanctioned in 2012?

A14. The project remains on schedule for first power in late 2017. Nalcor has provided a discussion on risk in its 2014 Business and Financial Report. The information regarding the Lower Churchill Project can be viewed on page 45 of this report and is available at:
<http://www.nalcorenergy.com/pdf/2014AnnualReport.pdf>

Q15. Can you explain in simple language how Nalcor will compensate Emera if the MF plant is not ready when the Maritime Link is completed? Is there additional power, or money or any other consideration which has been given to Emera to compensate for such delay?

A15. In April 2014, Nalcor Board Chair Ken Marshall responded to this question in a Letter to the Editor which was in reply to questions posed by yourself and Mr. Ron Penney. In that letter he stated: "There is no compensation associated with a delay. This is addressed in the Energy and Capacity Agreement also available on the project website. The commitment to provide energy to Nova Scotia starts with commissioning of the third generating unit at Muskrat Falls and continues for 35 years from that event. For disruptions of generation or transmission, replacement energy to make up for missed deliveries will be provided to Nova Scotia after the interruption has ended."