

Questions and Answers

Contracts and Procurement Process for the Muskrat Falls Project

July 2014

Q1. When will the power purchase agreement signed in November 2013 be released publicly?

A1. The Power Purchase Agreement document was publically released with the updated capital cost for the Muskrat Falls Project on June 26, 2014. This document is available online at: http://muskratfalls.nalcorenergy.com/wp-content/uploads/2013/03/Power-Purchase-Agreement_29Nov2013.pdf

Q2. Will this agreement [Power Purchase Agreement] be subject to regulatory oversight by the PUB? If not, why not?

A2. This question was answered by Ed Martin Nalcor's AGM. Nalcor's AGM material and information can be viewed at the following link: <http://nalcorenergy.com/agm-2014.asp>.

Here's a summary of his response given at the AGM. The costs of Muskrat Falls and the Labrador-Island Link are going into electricity rates. Provincial legislation has been established that ensures the costs of Muskrat Falls are going into the rate base without going through the PUB for approval. Nalcor has been clear on this fact from the onset of the discussion on Muskrat Falls. Prior to construction of the project, we needed certainty in financing.

Q3. On January 29, 2014 I asked whether SNC Lavalin or its subsidiaries play any role in the Strait of Belle Isle cable installation and burial. The response from Nalcor dated March 14, 2014 did not deal with the question of subsidiaries of SNC Lavalin. Please respond to full question: do the subsidiaries of SNC Lavalin play any role in the Strait of Belle Isle project?

A3. The Strait of Belle Isle marine cable crossing is not part of the EPCM contract with SNC-Lavalin. This is a Nalcor responsibility using consultants and contractors who specialize in subsea cables, horizontal directional drilling and marine environments. For further clarity, no subsidiary of SNC Lavalin plays a role in the cable installation and laying of the cable across the Strait of Belle Isle. At the 2014 AGM, a different question regarding the role of subsidiaries of SNC-Lavalin was asked – "Does SNC Lavalin or its subsidiaries play any role in work relating to the Strait of Belle Isle?" While the role of Spectrol Group, a SNC-Lavalin subsidiary, is unrelated to cable installation and burial, they do provide third-party inspection services for equipment to be installed as part of the Strait of Belle Isle marine cable crossing project.

March 2014

Q1. Can you confirm whether the Asatldi bid was one-third less than the next lowest bidder?

A1. Nalcor Energy followed an extensive evaluation and selection process for the construction of major civil works for the Muskrat Falls hydroelectric generating facility. Following this process, Nalcor selected Astaldi Canada Inc. as the contractor for construction of the powerhouse, spillway, intake and transition dams at Muskrat Falls. Nalcor has stated that the approximate value for the powerhouse contract is around \$1 billion. The contract was awarded to ensure best value for the project and ultimately electricity customers in the province, and included a full assessment of risks, technical ability, experience, quality, safety and cost. Nalcor has not released the value of the other bidders on this contract.

Q2. And is Nalcor aware that they did not qualify to bid on a hydro project in BC?

A2. Astaldi Canada Inc. was selected as the contractor for this work based on the best technical execution plan combined with the best commercial bid, which ultimately provides the best overall value for the Muskrat Falls Project and Newfoundlanders and Labradorians.

Nalcor does not get involved in the procurement decisions made by parties that are not directly associated with the Muskrat Falls Project. Procurement decisions made by other parties in other jurisdictions are the sole business and discretion of those entities.

Q3. Your response of June 28, 2013 to questions raised at, or in advance of, the Nalcor June AGM state that:

SNC-Lavalin (SNC) was awarded an Engineering, Procurement and Construction Management (EPCM) Services Contract and is a Consultant to Nalcor Energy for the Lower Churchill Project. SNC specializes in hydroelectric developments, transmission, High-Voltage direct current and civil works. SNC have the Engineering responsibility for Muskrat Falls, Labrador Transmission Assets and Labrador-Island Link with the exception of the Strait of Belle Isle marine cable crossing, which is a Nalcor responsibility using consultants and contractors who specialize in sub-sea cables, horizontal directional drilling and marine environments.

Your response goes on to say that:

As with any major project there are different phases of the project , the engineering phase is nearing completion, procurement and contracting is well advanced, and by the end of 2013 both engineering and procurement will move to a "follow -on" phase. The emphasis of the Project Delivery Team is now shifting from engineering and procurement into the construction management phase. This is a normal course of events and as construction progresses further, there will be a transition to the commissioning/start-up and operations phase. It is normal procedure for any owner to gradually take on a greater role as the project moves through these phases. The Lower Churchill Project is no different in this regard the Project Delivery Team will adapt to the project phases and will call upon the EPCM services of SNC and other specialist consultants to support the Project Delivery Team. Has the role of SNL Lavalin now changed pursuant to the paragraph quoted above?

A3. Yes the role of SNC-Lavalin has changed as noted in the paragraph above. At the end of 2013, engineering for the Muskrat Falls hydroelectric facility and associated transmission assets was substantially completed. In addition, most of the procurement of goods and services for the project is anticipated to be completed in 2014. With these two major components significantly completed, there is a shift in the focus of the project to construction management.

Q4. What is the composition of Nalcor’s “Project Delivery Team” and their terms of reference?

A4. Nalcor’s Project Delivery Team consists of four main sub-project or component managers – Muskrat Falls Project Manager, Overland Transmission Project Manager, HVdc specialities Project Manager, SOBI Project Manager reporting to a leadership team consisting of a General Project Manager reporting to a Project Director who in turn reports to the Vice President Lower Churchill Project.

The role of the Project Delivery Team is to provide and execute the Project Management of the Lower Churchill Project using best-in-class project management processes, procedures, systems and resources and engaging and managing qualified and experienced engineering consultants, specialist consultants, suppliers and contractors to deliver the project safely, following all regulatory and environmental requirements and in accordance with the approved cost and schedule.

Q5. What is the scope of SNC Lavalin’s authority to make decisions with respect to the award of engineering and construction projects and the engagement of professional services?

A5. Nalcor is the project owner and retains full oversight, decision making and financial authority over all contract awards.

Q6. How are decisions made with regard to the award of contracts? Please trace the steps leading to the award of an individual contract and the role of various participants in each step.

A6. Nalcor has established a rigorous, open procurement process to ensure best value for Newfoundland and Labrador ratepayers. All contracts for the Muskrat Falls Project are subject to an extensive, rigorous and competitive procurement process to ensure that project costs are effectively managed.

Nalcor has established a procurement team for the Muskrat Falls Project that oversees the entire process from issuing a request for proposals to the final execution of a contract. This team has extensive experience in this field, having worked on procurement for other large construction projects locally, nationally and internationally. Information on the procurement process is located on the Muskrat Falls Project website at:

<https://muskratfalls.nalcorenergy.com/wp-content/uploads/2013/07/Muskrat-Falls-Procurement-July2013.pdf>

Q7. Is the bidding process by invitation only and are there a minimum number of bidders required on each contract? Are contract budgets released before the contract is bid upon?

A7. The procurement process for Muskrat Falls Project is clearly outlined on the Muskrat Falls Project website at: <https://muskratfalls.nalcorenergy.com/procurement/>.

Prior to project sanction and construction, Nalcor has been very active delivering information through face-to-face meetings, presentations, seminars, trade shows, etc, to businesses and stakeholders about the procurement process, types of contracts available, how to pre-qualify for contracts, among other details of the process.

This is a public process and Nalcor has done a significant amount of work to ensure we have a number of qualified bids for contracts and we've been successful in attracting bids from world-class companies from around the world. We have not pre-determined the number of bidders required for each contract.

To ensure we received competitive bids for each scope of work, contract budgets are not released before the contract is bid by vendors. If we release contract budgets this would severely compromise Nalcor's ability to get the best value for contracts and ultimately the best value for Newfoundland and Labrador ratepayers.

Q8. How is this oversight role managed and performed by SNC Lavalin? From which office?

A8. Please refer to the information provided in answer #11. Engineering and procurement for the Muskrat Falls Project is performed primarily from the Lower Churchill Project office which includes SNC-Lavalin's office. This office is located in St. John's.

Q9. If bids received are significantly higher than budgeted is there a process for re-tendering or for revision in the specifications?

A9. Nalcor is committed to ensuring it receives the best value for the project and the people of Newfoundland and Labrador. The project team has taken extensive steps to promote the project nationally and internationally and has been successful in receiving competitive proposals from world-class companies with significant experience in the electricity industry. Nalcor will take steps to ensure best value for the work and may redefine the scope of a contract and/or work with the respondent to modify their proposal or go out for new proposals.

Q10. Does their mandate [referring to SNC] include the cable across the Strait of Belle Isle and the associated earth work? If not, does SNC Lavalin or its subsidiaries play any role in the Strait of Belle Isle cable installation and burial?

A10. The Strait of Belle Isle marine cable crossing is not part of the EPCM contract with SNC-Lavalin. This is a Nalcor responsibility using consultants and contractors who specialize in subsea cables, horizontal directional drilling and marine environments. SNC-Lavalin is not playing a role in the cable installation and laying of the cable along the Straits.

Q11. Is their mandate [referring to SNC] with respect to the Labrador Island Link the same as it is at the Muskrat Falls site?

A11. SNC-Lavalin was awarded an EPCM Services Contract and is a consultant to Nalcor for the Lower Churchill Project. SNC specializes in hydroelectric developments, transmission, High-Voltage

direct current and civil works. SNC-Lavalin has the engineering responsibility for Muskrat Falls, Labrador Transmission Assets and Labrador-Island Link, excluding submarine cable works.

Q12. What oversight role does SNC Lavalin perform with respect to the work of contractors and how are project risk and responsibility shared among Lavalin, Nalcor and the contractor?

A12. Please refer to information provided in answers A8, A10, and A11. Additionally, SNC-Lavalin does not have an oversight role of contractors other than engineering consultants that they may engage as part of the engineering responsibility as described previously. Risk and responsibility sharing within contracts and purchase orders is negotiated by the Project Delivery Team with all purchase orders and contracts approved by Nalcor. Each contract may have different risk sharing and responsibilities.

Q13. Has there been insurance put in place to guard against design flaws, negligence, and errors and omissions by SNC-Lavalin?

A13. In December 2010, Nalcor Energy selected SNC-Lavalin for the EPCM contract following a very thorough decision process based on a number of elements but driven by the value the proponent could bring to the project. SNC-Lavalin offers the world-class engineering, procurement and construction management experience required for a project of this magnitude. Their specialization in hydroelectric developments, transmission, HVdc and civil works will be critical to the successful construction of the Lower Churchill Project. This is why SNC-Lavalin was selected for this contract. The contract with SNC-Lavalin includes appropriate contract clauses regarding liability.

Q14. We understand that the contract for manufacture of turbines was awarded to a Chinese manufacturing company and that the contract for transmission towers was awarded to a Turkish manufacturing company. How are quality standards to be assured? What monitoring process is in place by Nalcor/SNC during the manufacturing process?

A14. There is an agreed Quality Program in place for the Muskrat Falls Project. The Project Delivery Team has a direct role and contracts in place for quality assurance oversight of the work carried out by these suppliers.

Q15. Is there a threshold contract value above which Nalcor asserts full decision-making authority? If so, what is the threshold level?

A15. Please refer to additional information provided in answers 10-13. Nalcor is the project owner and retains full oversight, decision making and financial authority over all contract awards.

Q16. What proportion of sub-contracts is supervised through SNC-Lavalin? Please provide a list of contracts managed by SNC-Lavalin and a list of those managed by Nalcor directly.

A16. Subcontractors are managed by the project's primary contractors and suppliers. Nalcor retains full oversight, decision making and financial authority over all contracts.

All contracts awarded by Nalcor for the project are listed on the Muskrat Falls Project website at: <https://muskratfalls.nalcorenergy.com/procurement/> and also in the Monthly Reports at: <https://muskratfalls.nalcorenergy.com/newsroom/reports/>

Q17. Is SNC-Lavalin compensated for its EPCM services by a percentage commission on the value of contracts supervised and material procured? If so what is the percentage of the management fee or commission?

A17. SNC-Lavalin was retained after completion of a public Expression of Interest call and a Request for Proposal process.

At several events and through responses to questions from the public, Nalcor's CEO Ed Martin addressed questions regarding the contractual services between Nalcor and SNC-Lavalin (the EPCM consultant for the Muskrat Falls Project). Mr. Martin noted that the detailed commercial and financing arrangements of the EPCM contract are commercially sensitive and could not be released. There is no percentage commission arrangement for SNC-Lavalin.

Nalcor publishes detailed monthly project reports outlining expenditures, employment, benefits and procurement information. These reports are posted on the Muskrat Falls Project website at <https://muskratfalls.nalcorenergy.com/newsroom/reports/>. Included in these reports is detailed monthly expenditures for the Muskrat Falls Project broken down by industry category.

Q18. Or is compensation based on budgeted time estimates of SNC Lavalin staff at agreed salary and benefit costs with professional overhead charges added as a percentage? What is the percentage value of these overhead charges?

A18. Refer to answer provided in A17.

Q19. What incentive is there for SNC Lavalin to perform within budget and on time and to comply with quality assurance standards?

A19. Refer to answer provided in A17.

Q20. How much has been paid to SNC Lavalin for their EPCM services since project sanction?

A20. Refer to answer provided in A17.

Q21. How much is expected to be paid to SNC Lavalin, throughout the full construction term, to 2017?

A21. Refer to answer provided in A17.

December 2013

Q1. Have you awarded the contract for the powerhouse and other structures to Astaldi? What is the value of the contract?

A1. In October 2013, Nalcor announced that it selected Astaldi Canada Inc. as the preferred contractor for the construction of major civil works for the Muskrat Falls hydroelectric generating facility which includes construction of the powerhouse, intake, gated spillway, transition structures and other associated work. Since that time, Nalcor has been focused on completing commercial negotiations with Astaldi to finalize the contract. We are under final contract completion for this work. This contract is valued at approximately \$1 billion.