

February 29, 2012

Ms. Cheryl Blundon, Board Secretary
Suite E210, Prince Charles Building
120 Torbay Road, St. John's
P.O. Box 21040
St. John's, NL
A1A 5B2

Ms. Blundon:

I wish to file the following amendment and short supplement to my presentation to the Board on February 20, 2012 regarding the Muskrat Falls Project:

(1) On Slide 2 of my presentation, I stated that

"Private sector investments now using long term oil prices at ~ \$90 to \$100 (2010 \$ US)".

As the result of new information received from an extremely credible industry source since my presentation, this statement should be amended to read:

"As a result of the projected worldwide development of shale oil supplies, major private sector energy investments are now being based on long term prices in the \$80 to \$90 (2010 \$US) per barrel range. "

As shown on my Slide 2, I estimate that Nalcor is using the equivalent of \$134 (2010 \$ US) in 2035 to justify developing Muskrat Falls. This is an assumption that no prudent private sector energy company would contemplate.

At \$80 to \$90 per barrel, Nalcor would be over-estimating the long term price of oil by \$50 per barrel (2010 \$ US).

I would also note that under Nalcor's own calculations, at a future oil price of \$80 to \$90 (2010\$ US) per barrel, Nalcor's projected \$2.2 billion advantage for Muskrat Falls over the "Isolated Island" (Holyrood plus) option would disappear and there would be no economic rationale for making such a large and risky investment as Muskrat Falls.

And this is quite apart from the dangers of any cost overruns and the numerous other risk factors (eg reliability) that have been adequately documented by other presentations to the Board.

And not to mention Nalcor's projected "on budget" demand on the Province's public finances of \$5.5 billion for the Muskrat Falls dam and Labrador to Island transmission line (including interest / cost of capital during construction).

(2) On Slide 7 of my presentation, I stated that:

"Cost overruns on such large projects typically arise from changes during construction and owner's inexperience."

I would add (as pointed out by Ms. Greene QC (Counsel for the Board) during my presentation), that the high imprecision of Nalcor's DG2 estimate of November 2010 (as discussed on slide 7) reflects in part the fact that a DG2 type estimate comes at a stage and is associated with the completion of only 5 to 10% of the project definition needed to provide guidance to the owner's decision at the sanction (DG3) stage.

Consequently, there is high probability of large cost adjustments between the DG2 and DG3 stages due to design and other engineering changes.

(3) And further to point (2) above, and because the imperfect November 2010 DG2 preliminary budget numbers are the only budget numbers now before the Board, I would re-iterate the recommendation on my Slide 7 which can be summarised as follows:

"The Board should adjourn its hearings until Nalcor has finished its DG3 studies and has made a formal DG3 recommendation to Government, after which it should hold a second round of studies based on that DG3 information and Nalcor's recommendation."

I thank the Board for the opportunity to have input into this process.

Yours truly,

Cabot Martin