

Response to Clarification Questions from the Commission

Assembly or Fabrication

We are trying to more precisely define the local benefits we can expect from the project. The benefits agreement refers to the 'fabrication' of the living quarters in the province. There has been some discussion of the design and the procurement strategy for this module and how they might impact local participation. Perhaps you could give us a better understanding of the engineering and procurement approach being taken on this module.

(In the answer to our request for information, at one stage it sounds as if base plan for Bull Arm will be for the living quarters to be fabricated at Bull Arm and at another it sounds as if it will be assembled there. Can you help us understand what is involved in the construction process?)

Response:

The Hebron Project is planning to undertake the Living Quarters (LQ) work scope on a turnkey EPC contract basis. The Project has prequalified two joint venture groups, each comprising a Newfoundland company and an experienced international LQ contractor, to undertake this work scope. Consistent with the requirements of the Benefits Agreement, the detailed engineering and procurement activities will be undertaken by the successful contractor in the Province. The successful contractor will also be expected to comply with the “full and fair opportunity” and “first consideration” provisions of the Atlantic Accord Acts in undertaking subcontracting and procurement activities. A detailed fabrication and assembly strategy will be established by the successful contractor, however, the primary fabrication and/or assembly location is expected to be the Bull Arm Fabrication Site.

Global Competitiveness

Use of the phrase “globally competitive” throughout the Development Plan is concerning to NOIA and in other submissions received, could you comment in the context of what is mandated in the Atlantic Accord concerning the “first consideration” principle?

Response:

During its preparation of the Benefits Plan the Hebron Project undertook extensive consultations with the C-NLOPB on the requirements of its Benefits Plan Guidelines and the application of the benefits plan provisions of the legislation. Regarding application of the “first consideration” principle, the Project is guided by the C-NLOPB’s current expectations as outlined in the Board’s Decision 2001.01 Approval of the White Rose Benefits Plan. In particular, we refer the Commissioner to Chapter 3, Part A – The Legislation and How It Is Applied, of the Board’s Decision. A copy of this section of Decision 2001.01 is attached for the Commission’s reference. Based on our review of this guidance, the Hebron Project is confident that the strategies, initiatives and procedures outlined in the Hebron Benefits Plan fully address the relevant legislative provisions including the Board’s expectations related to

application of the “first consideration” principle. In particular, Section 3.2.2.4 (Goods & Services) provides clarification that the “full and fair” and “first consideration” provisions are interpreted to be applied on a globally competitive basis and not limited to a domestic market.

Benefits Reporting/Reporting Mechanisms

There were some questions about the amount of benefits information released by the Board and the timeliness of that information. There was a sense that some of the information supplied to the Board in compliance with reporting requirements was unnecessarily tagged as proprietary or confidential, thereby making it difficult for the business community to get an accurate or timely picture of progress on the benchmarks for benefits. From your perspective, is there an opportunity to revisit the present arrangement to determine what additional information can be released without compromising confidentiality?

Response:

ExxonMobil will continue to make information available to the CNLOPB and the public as required by regulatory requirements applicable to the specific phases of the project. Relative to this issue, in January 2012, the C-NLOPB issued a formal notification to all NL Operators indicating the requirement to make annual and quarterly Canada-Newfoundland and Labrador benefits reports available to the public. Hebron will be required to make reports available to the public following approval of the Development Application.

Canada – Newfoundland Benefits

ExxonMobil has stated that the Hebron Project will deliver more local benefits than the Hibernia Project. As Commissioner, I am unable to clearly understand how ExxonMobil will accomplish this. I request that ExxonMobil provide in tabular form specific estimates in quantifiable terms of the Canada and Newfoundland content that the ExxonMobil expects will result from its implementation of the Hebron Benefits Plan. Separate the Project period from the Production period, goods and services from labour, and provide the breakdown by various project elements to a similar level of detail as shown in the Development Plan Chapter 10 – Construction and Installation for project requirements.

Response:

ExxonMobil’s statement that the Hebron Project will deliver more local benefits than the Hibernia Project relates to the overall scope and complexity of work to be done in the Province. The Hebron Project plans to engineer and build more in the Province than was done during the Hibernia Project. The following was outlined during the Public Review Sessions:

GBS

GBS Detailed Design:	Hebron - all in NL, Hibernia – approximately half in NL
Civil Construction:	Both Hebron & Hibernia - all in NL
GBS Mechanical Outfitting:	Hebron – all in NL, Hibernia – some in NL

TOPSIDES

Detailed Design

Living Quarters:	Hebron and Hibernia - both in NL
Drilling Modules:	Hebron – to be done in NL (subject to completing commercial agreements), Hibernia – none in NL

Fabrication

Living Quarters:	Hebron - to be built in NL (subject to completing commercial agreements), Hibernia - not built in NL
Drilling Modules:	Hebron will build 1 in NL (subject to completing commercial agreements; potentially 2), Hibernia built the wellhead module in NL

Other structures: the flare boom, helideck, lifeboat stations are being built in province, as they were for Hibernia.

As noted during the Public Review, from the point of view of the components that make up the platform, Hebron will engineer and build more in NL than was done for Hibernia. The above information is a comparison of that scope of work, which we have more control over. Estimating actual work hours and expenditures is more difficult to control because this depends on productivity and many other issues which are hard to predict at this stage. To supplement the above comparison, the Commission has been provided with a document which identifies the tonnage for in province scopes of work planned for Hebron.

As noted in the Public Reviews, the strategy planned for fabrication of the living quarters demonstrates our commitment to leaving a lasting legacy of supplier development and technology transfer. Hebron identified two local companies and facilitated them teaming up with international specialists in living quarters engineering and construction. The Project has invited those two local companies to bid. This is an area where the Project sees potential for long-term sustainable benefits in the province.

Level of Local Participation

Yesterday we heard discussion regarding the level of local participation in the fabrication of topsides and the construction of the GBS as envisaged for Hebron as compared to that for Hibernia. Geoff Parker, Project Manager, cited some of the challenges that arose during construction of the Hibernia platform, but went on, I believe, to say that more of the platform would be built in Newfoundland than was the case with the Hibernia platform. I just want to recheck my understanding of your comments in that regard and to ask that you comment on what parts of the Topsides will be built where?

Response:

Per the Benefits Agreement with the Province the following topsides components will be built in the Province – Flare Boom, Helideck, and Lifeboat Stations. Subject to capacity (physical and/or labour)

provisions of the Agreement, the following additional topsides modules may be built in Province – Living Quarters (LQ) Module, Drilling Support Module and Drilling Equipment Set.

GBS Mechanical Outfitting

There was also some discussion of mechanical outfitting as it relates to Hebron versus Hibernia. As I understand it, the single shaft design being used for Hebron and the expanded provision for wells require that the process equipment that might otherwise have been installed in the base will now be incorporated in the Utilities & Processing Module. NOIA's point was this could further reduce local content relative to Hibernia. Mr Parker's reply to that was that the mechanical outfitting of the base for Hibernia was not done locally. I understand that some mechanical components were fabricated outside the province but that, nevertheless, a substantial portion of the overall outfitting activity was conducted at Bull Arm. Perhaps you might clarify your understanding on this point?

Response:

The Hebron platform concept is based on a single shaft GBS design with placement of all processing and utilities equipment on the topsides, rather than having some equipment located in the GBS. This design concept is similar to design concepts predominantly used on GBS projects undertaken internationally since Hibernia. This concept was also the basis for project negotiations with the Government of Newfoundland and Labrador which led to the execution of the Hebron Benefits Agreement in August 2008. Pursuant to the requirements of that agreement, all Hebron GBS mechanical fabrication and outfitting work, and associated detailed engineering will take place in the Province.

Is the figure of 44% for local content commensurate with the benchmarks for local content spelled out in the benefits agreement and the benefits plan? Based on engineering, planning and procurement progress to date, is it fair to say the momentum with regard to benefits is trending upwards (i.e. likely to be higher than 44%)?

Response:

The 44% local content estimate was developed on the basis of early project execution plans which take into account the benchmarks contained in the Benefits Agreement. The Benefits Plan itself does not contain benchmarks for the project. At this very early stage of project execution it would be premature to speculate on local content trends.

Supplier Contractual Terms-Financial Guarantees

Yesterday, Nov 21, 2011, we heard that the Hebron Project requires that suppliers provide various financial and liability guarantees. Can ExxonMobil outline these requirements and supporting rationale?

Response:

Like other Operators, ExxonMobil has standard Terms and Conditions which detail supplier's liabilities under the contract. Most of the procurement on the project will be handled by one of our prime contractors (KKC or WorleyParsons), and the terms from the prime contract are cascaded to their subcontractors or suppliers. The clauses concerning supplier liability (e.g. warranties, guarantees, risk distribution) are consistent with our standard contracts and have not been adjusted for Hebron. Short form (less onerous) T&Cs exist for lower value contracts.

EM (and our prime contractors) need to ensure the companies we are contracting with are financially sound, and financial assessments of potential suppliers are performed at the bid evaluation stage. Some instruments of financial guarantee may be required (e.g. Letter of Credit or Parent Company guarantee), depending on contract value, duration or complexity. These instruments would be required regardless of supplier location (i.e. would not just apply to local suppliers) and part of the standard contracting process.

DSM Equipment

Verbal Request by Commission at Marystown session

Response:

The current DSM design contemplates a 4 level structure and is anticipated to contain the following major equipment and components subject to design development:

Level 1

- 1. Mud pumps**
- 2. Cementing unit**
- 3. Drilling related tankage**
- 4. Storage areas**
- 5. Cementer's room**

Level 2

- 1. Mud mix equipment**
- 2. Mud mix control room**
- 3. Mud pit room including mud return gutter**
- 4. Dry sack storage**
- 5. Mud additive storage**
- 6. Liquid chemical store**
- 7. Externally mounted, crane accessible laydown/storage areas**

Level 3

- 1. Transformer room**
- 2. Low voltage switchroom**
- 3. Instrument room**
- 4. HVAC room**
- 5. Temporary externally mounted laydown area for transformer removal/replacement**

Level 4 (Roof)

- 1. Drill pipe storage area**
- 2. Cantilevered laydown**
- 3. Wireline unit (housed on laydown area)**
- 4. Catwalk pipe handling machine**
- 5. Knuckle boom drill pipe handling crane**

Externally Mounted on East Side of Module

- 1. Barite bulk powder storage tanks**
- 2. Cement bulk powder storage tanks**