



## Dar Al Riyadh Insight #90

### Event Contingency – Components of a Project's Price

*Dar Al Riyadh Insights reflect the knowledge and experience of our Board, executives and staff in leading and providing PMC, design and construction management services. Dar Al Riyadh believes in the importance of broadly sharing knowledge with our clients and staff to improve project outcomes for the benefit of the Kingdom of Saudi Arabia.*

#### Introduction

Event contingency is an event, such as an emergency, that may—but is not certain—to occur. This series of Insights focuses on this important element of an engineer's or a constructor's price or an owner/PMC's budget. While event contingency is often considered from a provider's perspective, it is equally important from an owner's perspective in order to understand probable project costs, the event-related uncertainties a project may face, and strategies to best manage any emergent risks.

In this series of Insights, six elements involved in event contingency are examined:

1. Various financial components of a project's price
2. Event contingency as distinguished from cost contingency
3. Preferred method of addressing event contingency from a provider's perspective
4. Potential event risks warranting consideration (event risk checklist)
5. Events typically excluded from event contingency
6. Modeling of event risk in large complex projects

#### Components of a Project's Price

A program/project's total cost to an owner includes the sum of all individual projects/contracts comprising the owner's overall program (project) plus owner retained costs and risks. Risks retained include risks not transferred; white space risks between projects/contracts; systemic risks including those associated with coupling and correlation; and event risks.

From the perspective of a single project provider (engineer/contractor), price (the amount the owner is to pay subject to fulfillment of an agreed to scope and within defined terms and conditions) may be considered as including the following elements:

- Cost
  - Including allowances for scope development and productivity
- Escalation
- Cost contingency
  - Considering cost ranges for various cost elements and subject to a consolidated Monte Carlo Analysis
- Foreign exchange allowances for international projects or cost of hedges
- Event contingency

- Mitigated exposure from event risks assumed by the contract and subject to a consolidated Monte Carlo Analysis
  - Assumed risk distribution requires special attention on large complex projects
- Revenue reserves
  - Associated with warranties and yet unearned incentives

These Insights focus on event contingency.