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ROUTING SHEET FOR CIVIL WORKS CORRESPONDENCE*

Date Circulated 14 Jun 07

SUBJECT Application of Cost Risk Analysis Methods to develop Contingencies for Civil Works Total Project Costs

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Action Officer (ext.)

14 Jun 07
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* **After review, initial, or signature, please call the following person for pick up:**

Name: Ray Lynn **Phone # 761-** 5887

M E Riley edits 6/26

DEPARTMENT OF THE ARMY
U.S. ARMY CORPS OF ENGINEERS
WASHINGTON, D.C. 20314-1000

CECW-CE (1110)

JUL 3 2007

MEMORANDUM FOR SEE DISTRIBUTION

SUBJECT: Application of Cost Risk Analysis Methods to Develop Contingencies for Civil Works Total Project Costs

1. References:

a. Memorandum, CECW-MVD/CECW-CP/CECW-CE/CECW-CO, dated 24 Aug 2006, SUBJECT: CG Directive #1 – Supplemental Actions to the USACE Campaign Plan, Applying Lessons Learned resulting from Hurricanes Katrina and Rita.

b. ER 1110-2-1150 Engineering & Design for Civil Works Projects, 31 Aug 1999.

c. ER 1110-1-1300 Cost Engineering Policy & General Requirements 26 Mar 1993.

d. ER 1110-2-1302 Civil Works Cost Engineering, 31 Mar 1994.

2. In accordance with the Corps Actions for Change (ref.1a), to more accurately identify and mitigate cost and schedule risk to our customers and Congress, this memorandum directs the use of specific cost risk analysis methods for the development of contingency on Civil Works Total Project Cost. This is applicable for all decision documents requiring Congressional authorization for projects exceeding $40 million.

3. At a time when project delivery teams are being asked to provide more accurate cost information earlier in project planning and design than ever before, cost risk analysis will improve accuracy in the development of total project cost for Civil Works projects. It provides opportunities to explicitly address much of the uncertainty inherent in the cost estimating process. This uncertainty is quantified by the cost risk analysis method and is reflected in the project's contingency.

4. When you identify considerable uncertainties, cost risk analysis can establish the areas of high cost uncertainty and the probability that the estimated project cost will or will not be exceeded. This gives the management team an effective additional tool to assist in the decision making process associated with project planning and design.

5. This requirement will take effect on 1 Oct 2007. We will issue specific guidance through planning and engineering offices.

6. My point of contact for this effort is Mr. Raymond Lynn, CECW-CE, 202-761-5887.

DON T. RILEY
Major General, U.S. Army
Director of Civil Works

CECW-CE
SUBJECT: Application of Cost Risk Analysis Methods to develop Contingencies for Civil Works Total Project Costs

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